UniCredit Bank AG 2012 Annual Report

Disclaimer
This edition of our annual report is prepared for the convenience of our English-speaking readers. It is based on the German original, which takes precedence in all legal respects.

Published by:
UniCredit Bank AG
Head Office
D-80311 Munich
www.hvb.de
Registrar of companies: Munich HRB 421 48
Sorter pages: UniCredit
Creative concept: Orange 021
Design, graphic development and composition:
MERCURIO GP© – Milan
Typesetting: Layoutsatz 2000 GmbH & Co. KG, Munich
Printed by: Mediahaus Biering GmbH
Printed in Germany

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Business Situation and Trends

Underlying conditions and general comments on the business situation

The global economy lost much of its momentum during the course of 2012. Alongside the slowing pace in industrialised countries, the stimuli also declined from emerging markets, and most notably China. In particular, the situation in the countries on the eurozone's southern periphery remained bleak on account of the in part drastic austerity measures initiated coupled with rising unemployment. On the other hand, despite a weak fourth quarter, the economy in the United States performed relatively well, driven by robust consumer spending by private households, ongoing stabilisation in the residential property market and persistently highly expansive fiscal and monetary policy. The Federal Reserve initiated a third round of quantitative easing (QE3) in the second half of 2012 with the open-ended purchase of an additional $40 billion of mortgage-backed securities each month.

The huge burdens arising from budgetary consolidation caused the economies in the heavily indebted countries of the eurozone to contract sharply during the reporting period. The main reason for this was weaker domestic demand due to the austerity measures that have been taken. The situation remains the most difficult in Greece, where the reform targets have continued to be missed by clear margins. Nevertheless, Greece's international creditors agreed to a further package of measures in November 2012 aimed at closing the financing gap through 2014 and reducing the debt-to-GDP ratio to a sustainable level in the long run. Even though the economies of the core eurozone countries also slowed considerably during the course of the year, the growth differences between the core and peripheral countries remain in place.

In Germany, industrial expansion remained remarkably robust up to and including the summer months, despite a previous massive decline in business sentiment. Exports were once again the pillar of growth in the third quarter together with consumption. By year-end, however, there had been a delayed, tangible correction. Industrial growth pointed sharply downwards in the fourth quarter. The persistently healthy situation on the labour market, on the other hand, had a stabilising effect on private consumption. All in all, the GDP contracted by 0.6% in the fourth quarter of 2012 compared with the previous quarter. This still yields annual growth of 0.9% for 2012 as a whole. Inflation averaged 2.0% over the course of the year.

The European Central Bank (ECB) supplies European banks with a high level of liquidity, although the funding required by banks in countries hit by the debt crisis fell slightly overall towards the end of the year. The negative TARGET2 balance of the crisis-hit countries – Spain, Italy, Greece, Ireland and Portugal – fell from a peak value of almost €1 trillion in August to less than €848 billion at year-end 2012. The easing stems mainly from the announcement made by the ECB in the third quarter of 2012 that it was willing, under certain conditions, to buy unlimited volumes of government bonds issued by crisis-hit states with a maturity of up to three years on the secondary market (Outright Monetary Transactions or OMT). For such an intervention under the European Stability Mechanism (ESM), the member state in question must agree to a set of conditions. Moreover, the member states in question must continue to have access to the capital market.

The European capital markets proved highly volatile in 2012. The positive trend in the first quarter, which could be attributed in part to the ECB's two three-year financing operations, was followed by a sharp correction in the second quarter as the sovereign debt crisis worsened. The situation on the capital market improved during the third quarter, triggered in turn by the ECB announcement to buy government bonds issued by crisis-hit countries. This positive trend continued through to the end of the year. As of the end of December 2012, Germany's benchmark index, the DAX30, had gained 30.2% since year-end 2011, while its eurozone equivalent, the EURO STOXX 50, was up 13.4%. The yield on ten-year German government bonds continued to fall. After 1.83% at year-end 2011, yields of 1.32% were recorded at the end of December 2012 after fluctuating greatly during the course of 2012, between brief jumps to over 2.0% and lows of 1.17%.

The ECB kept its benchmark rate at 1% in the first half of the year before lowering it to 0.75% at the start of July 2012. The deposit facility made available by the ECB does not currently attract any interest. By its nature, the very low level of interest rates is causing banks' earnings from interest-related activities to fall on account of the greater downward pressure on margins in deposit-taking activities in particular. In addition, the measures taken by the financial industry to reduce risk-weighted assets served to depress interest income. The euro remained largely stable against the US dollar, British pound, Swiss franc and Japanese yen in the first three months of the year before losing ground heavily in the second quarter. The trend only reversed towards the end of July, when the euro started strengthening again, culminating in the currency almost reaching its high for the year in December. The high level of liquidity on the market led to a considerable narrowing of spreads on the credit markets in the first two months of 2012 in particular, especially for sovereigns and banks, although these did widen again as of March 2012. Only towards the end of July did a recovery set in, reinforced later in the year by the announcement of government bond purchases by the ECB and the approval of the ESM by the German Federal Constitutional Court (Bundesverfassungsgericht).

In a persistently difficult capital market environment, UniCredit Bank AG (HVB) generated a very good profit before tax of €2,006 million in the 2012 financial year and thus significantly surpassed the year-ago figure (€1,166 million) by 72.0% or €840 million. Besides higher operating income, the decline of €816 million in provisions for losses on loans and receivables contributed to this performance. Expenses for restructuring provisions had a negative impact. At €1,462 million, net income was €445 million higher than in 2011 after deducting income tax (€544 million). The profit available for distribution, which forms the basis for the appropriation of profit, amounts to €2,462 million. This consists of the net income of €1,462 million generated in the reporting year and a withdrawal of €1,000 million from other retained earnings. We will propose to the Shareholders' Meeting that a dividend of €2,462 million be paid in total to UniCredit S.p.A. (UniCredit), Rome, Italy.

The increase in operating income by €158 million to €5,711 million is largely due to the sharp rise of €1,413 million in net income from the held-for-trading portfolio to €1,048 million. The net income from the held-for-trading portfolio in the 2012 financial year can also be attributed to the positive effects arising from the reversal of the credit value adjustments that it became necessary to take in 2011. By contrast, net interest substantially declined to €3,427 million; this development can be attributed to the decline in interest margins in deposit-taking operations due to the low level of interest rates, lower volumes in lending operations and the non-recurrence of positive one-off effects included in the year-ago total. Among other things, the decline in net fees and commissions (down €217 million to €1,156 million) is affected by the continuing and growing reticence on the part of customers, who turned increasingly to products with lower margins. Despite the expenses of €100 million incurred in connection with change in the organisational structure of HVB, general administrative expenses were down a slight €4 million year-on-year. The Bank's consistent cost management had a favourable effect in this connection. The cost-income ratio improved by 1.8 percentage points to 61.2% for the full year of 2012 (2011: 63.0%) and thus remained at a very good level by both national and international standards. The results achieved have more than met our expectations about the development of the profit before tax described in the Outlook in last year's Management Report.

HVB continues to have an excellent capital base. The core Tier 1 ratio in accordance with Basel II (ratio of core capital excluding hybrid capital instruments to the total amount of credit risk-weighted assets

Business Situation and Trends (Continued)

and equivalent risk-weighted assets for market risk and operational risk) increased to 17.5% as of 31 December 2012 (year-end 2011: 15.8%). This can be primarily attributed to a reduction in risk-weighted assets and thus remains at an excellent level by both national and international standards. This figure includes the decline of €1.0 billion in core capital excluding hybrid capital (core Tier 1 capital) following the withdrawal from HVB's retained earnings. The core Tier 1 capital at year-end 2012 thus amounted to €18.4 billion (year-end 2011: €19.3 billion).

The shareholders' equity shown in the balance sheet increased slightly by €445 million to €20.8 billion compared with year-end 2011. At the same time, the withdrawal from other retained earnings did not have any effect because this is retained in shareholders' equity as profit available for distribution until the dividend is paid. The dividend payment of €1.0 billion made in the second quarter of 2012 as resolved by the Shareholders' Meeting was more than offset by the net income of €1.5 billion generated in the reporting year. With total assets down by 10.3% compared with year-end 2011 to €355.0 billion, the leverage ratio (ratio of total assets to shareholders' equity shown in the balance sheet) amounted to 5.9% at the end of end of 2012 after 5.1% at year-end 2011.

HVB again enjoyed a very comfortable liquidity base and a solid financing structure at all times in the reporting period. In this context, it is worth mentioning that HVB did not participate in either of the ECB's three-year refinancing operations (in the fourth quarter of 2011 and in the first quarter of 2012) and has also placed a large part of its excess liquidity with Deutsche Bundesbank. The funding risk remained low on account of the diversification in our products, markets and investor groups, meaning that adequate funding of our lending operations was ensured at all times. Our Pfandbriefs continued to represent an important source of funding thanks to their very good credit rating and liquidity.

With our diversified business model, high capital base, solid funding foundation and good market position in our core business areas, we remain a reliable partner for our customers and investors. As an integral part of UniCredit, HVB is in a unique position to leverage its regional strengths in the international network of UniCredit for the benefit of its customers. HVB will build on these advantages by adjusting its business model as announced in the fourth quarter of 2012 to reflect the rapidly changing economic and regulatory environment and push further growth through a regional organisational structure and a stronger entrepreneurial focus. In the process, HVB will realign its structure from 2013 to create three business segments – Unternehmer Bank, Private Clients Bank, and the reorganised Corporate & Investment Banking – which will replace the previous operating divisions. In its German activities, HVB will rely on more entrepreneurship in the regions and the new structure will consistently strengthen its regional presence. In this context, HVB is taking further measures serving to ensure the competitiveness of its mass-market operations in the years to come. In addition to setting up new distribution channels – heavily in demand by customers – this also requires a streamlining of today's branch network and an alignment of personnel capacities with the change in customer behaviour. All in all, HVB set up restructuring provisions of €100 million in the 2012 annual financial statements.

We would like to expressly thank our employees at this point. Their willingness to embrace change and at the same time to help secure our commercial success forms the basis for our good performance. We also thank the employee representatives for their constructive cooperation in spite of the difficult issues. This gives all of us the confidence we need to master the challenges of the future.

Operating performance

The 2012 income statement and important events in the 2012 financial year

	2012	2011	CHANGE	
INCOME STATEMENT	€ millions	€ millions	€ millions	in %
Net interest income	3,427	4,265	(838)	(19.6)
Net fees and commissions	1,156	1,373	(217)	(15.8)
Net income from the held-for-trading portfolio	1,048	(365)	1,413	
Other operating income less other operating expenses	80	280	(200)	(71.4)
Operating income	**5,711**	**5,553**	**158**	**2.8**
General administrative expenses	(3,496)	(3,500)	4	(0.1)
Payroll costs	(1,701)	(1,701)	0	0.0
Other administrative expenses[1]	(1,795)	(1,799)	4	(0.2)
Operating result before provisions for losses on loans and receivables	**2,215**	**2,053**	**162**	**7.9**
Provisions	(129)	(945)	816	(86.3)
Operating result	**2,086**	**1,108**	**978**	**88.3**
Other income less other expenses	(58)	80	(138)	
Extraordinary expenses	(22)	(22)	0	0.0
Profit before tax	**2,006**	**1,166**	**840**	**72.0**
Tax	(544)	(149)	(395)	>+ 100.0
Net income	**1,462**	**1,017**	**445**	**43.8**
Transfer to the reserve for shares in a controlling				
or majority interest-holding company	0	(10)	10	(100.0)
Withdrawal from the reserve for shares in a controlling				
or majority interest-holding company	4	0	4	
Transfer to other retained earnings	(4)	0	(4)	
Withdrawal from other retained earnings	1,000	10	990	>+ 100.0
Profit available for distribution	**2,462**	**1,017**	**1,445**	**>+ 100.0**

1 including standard depreciation on property, plant and equipment

Business Situation and Trends (Continued)

Net interest income
Net interest income fell year-on-year by €838 million (19.6%) to €3,427 million.

This decline can be mainly attributed to the lower level of interest rates in deposit-taking operations compared with last year and the related lower interest margins together with declining volumes in lending operations. In addition, the low return on equity and the high non-interest-bearing liquidity reserves at central banks had a negative impact on net interest income.

Net fees and commissions
At €1,156 million, net fees and commissions were lower in the 2012 financial year than the year-ago figure (2011: €1,373 million). The decline in net fees and commissions (down €217 million or 15.8%) is due particularly to lower revenues from our trading in equities and investment certificates. Also in the other service operations we were unable to repeat the positive performance of the previous year (down by €33 million to €47 million). Only in payments did we achieve a slight rise of €3 million, to €136 million, in fee and commission income.

Net income from the held-for-trading portfolio
Compared with last year, net income from the held-for-trading portfolio increased by €1,413 million to €1,048 million. In 2011, it had been necessary to take credit value adjustments of €485 million on account of changes in the creditworthiness of debtors. These were able to be reversed for the most part in the reporting period. Furthermore, the improvement in trading income is due to higher income generated at foreign branches and interest-related transactions arising primarily from the valuation of market-making portfolios.

General administrative expenses
At €3,496 million general administrative expenses were at almost exactly the same level as last year (2011: €3,500 million).

In the year under review, restructuring costs totalled €100 million. These expenses arose in 2012 as a result of setting up restructuring provisions for measures in connection with the changes in HVB's organisational structure announced in the fourth quarter of 2012 as part of the introduction of the three business segments Unternehmer Bank, Private Clients Bank and the reorganised Corporate & Investment Banking, and the consistent strengthening of the Bank's regional presence as well as measures intended to ensure the competitiveness of the mass-market operations in the years to come. In addition to setting up new distribution channels – heavily in demand by customers – this also represents a streamlining of today's branch network and an alignment of personnel capacities with the change in customer behaviour. These restructuring provisions chiefly comprise provisions for severance payments but also costs for the closure of individual branch offices.

Consistent cost management made it possible to keep payroll costs and other administrative expenses at the same level as last year.

Other operating income less other operating expenses
The net income of other operating income less other operating expenses declined by €200 million to €80 million compared with last year (2011: €280 million).

Last year's high net income was attributable to the reversal of a provision in connection with the construction and operation of an offshore wind farm and the related specific loan-loss provisions. In the 2012 financial year, the reclassification of a provision to shield against legal risks arising from derivatives is positively reflected in the other operating income less other operating expenses. A factor driving the increase in other operating expenses was the set-up of a provision to cover expenses related to the premature withdrawal from securitisation transactions no longer recognised by the supervisory authorities.

Operating result before provisions for losses on loans and receivables
The operating result before provisions for losses on loans and receivables increased €162 million year-on-year to €2,215 million.

Provisions for losses on loans and receivables
The expense for the provisions for losses on loans and receivables including the result from securities held for liquidity purposes amounted to €129 million, which represents a sharp decline of €816 million compared with year-ago figure.

At the same time, there was a significant improvement of €284 million in the valuation result for lending operations to an expense of €457 million.

The net expense from securities held for liquidity purposes increased by €532 million to €328 million (2011: net loss of €205 million) in the 2012 financial year. This sharp increase is due particularly to gains arising in connection with buy-backs of our hybrid capital.

Other income less other expenses
Other income less other expenses of minus €58 million (2011: €80 million) includes write-downs on shareholdings amounting to a net expense of €16 million (2011: net expense of €63 million) besides the losses absorbed from subsidiaries totalling €6 million (2011: losses of €21 million).

These include €113 million special amortisation of the goodwill arising in the 2010 financial year due to the absorption of UniCredit CAIB Securities UK Ltd., London, by HVB.

Extraordinary expenses
Within the framework of the introduction of the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG) in 2010, HVB makes use of the option to aggregate the amount allocable to the provisions for pensions in annual instalments of one-fifteenth in every financial year up to 31 December 2024. The allocation accruing for the 2012 financial year amounts to €22 million and is reported under extraordinary expenses.

Profit before tax
Profit before tax increased by €840 million year-on-year (up 72.0%) to €2,006 million.

Taxes
The expense for taxes on income stood at €544 million in 2012 and was thus €395 million higher than last year's taxes on income. Among other things, a provision was set up for proceedings relating to German tax credits.

Net income for the year and appropriation of net income
The profit available for distribution amounts to €2,462 million. In the year under review, we transferred €4 million from the reserve for shares in a controlling or majority interest-holding company and allocated the same amount to other retained earnings again. In addition, a further €1,000 million were transferred from the retained earnings and allocated to the profit available for distribution. We will propose to the Shareholders' Meeting that a total dividend of €2,462 million be paid in total to UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €3.07 per share after €1.27 last year. In 2011, the profit available for distribution amounted to €1,017 million, which was disbursed to UniCredit in accordance with a resolution adopted by the Shareholders' Meeting on 10 May 2012.

Financial position

Total assets
HVB's total assets amounted to €355.0 billion at 31 December 2012. Compared with the 2011 year-end total, this represents a decline of €40.7 billion, or 10.3%.

The decline in total assets is chiefly attributable to the €23.7 billion reduction in the held-for-trading portfolio (balance sheet item A.6a) to €143.5 billion. Compliant with Section 10 of the Regulations

Business Situation and Trends (Continued)

Governing Disclosures in the Financial Statements of Banks and Similar Financial Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV), the positive and negative market values of OTC derivatives to be equalised at currency level were offset for those OTC derivatives concluded with the same central counterparty. Originally, positive market values of €20.4 billion and negative market values of €21.3 billion existed vis-à-vis the central counterparty. After offsetting these at €20.3 billion, an amount of €0.1 billion is left remaining in positive market values, which are included in the held-for-trading portfolio items on the assets side, and €1.0 billion in negative market values, reported on the liabilities side. The decrease of €8.1 billion in other loans and receivables with banks (A.3) can be attributed mainly to the lower volume of fixed-term deposits (€5.5 billion) and current accounts (€2.1 billion). There was a year-on-year decline of €11.6 billion in loans and receivables with customers (A.4), driven mainly by mortgage and syndicated loans (€4.6 billion) as well as repurchase agreements (€5.3 billion). Bonds and other fixed-income securities (A.5) fell by €8.0 billion.

In line with the assets side, total liabilities fell by €20.5 billion, to €132.3 billion, chiefly due to the OTC netting carried out in the held-for-trading portfolio (L.3a), while deposits from banks (L.1) also decreased by €13.4 billion, mainly on account of the lower volumes of repurchase agreements. In line with the total assets there was also a decline of €5.4 billion in securitised liabilities (L.3) on account of issues due; this is reflected above all in the mortgage bonds.

At 31 December 2012, shareholders' equity rose by €0.4 billion to €20.8 billion compared with 2011. The dividend payout of the profit available for distribution for the 2011 financial year (€1,017 million) was more than compensated by the profit available for distribution for the 2012 financial year (€2,462 million). The additional paid-in capital remains unchanged, while we have transferred €1.0 billion from other retained earnings to the profit available for distribution.

Risk-weighted assets, key capital ratios and liquidity

Risk-weighted assets for the credit risk compliant with Basel II totalled €82.1 billion at 31 December 2012 (2011: €89.8 billion). The risk equivalent amounts to €11.9 billion for the market risk, and €11.5 billion for the operational risk. Total risk-weighted assets thus stood at €105.5 billion at 31 December 2012, after €122.4 billion at year-end 2011.

At 31 December 2012, our core capital for solvency purposes (compliant with the German Banking Act (Kreditwesengesetz – KWG)) totalled €18.4 billion according to the approved financial statements. Equity funds, which consist of core capital and supplementary capital for solvency purposes, amount to €20.6 billion. This gives rise to a core capital ratio of 17.5% compliant with Basel II (including market risk and operational risk) and an equity funds ratio of 19.5% compliant with Basel II.

A bank's liquidity is evaluated using the liquidity ratio defined in Section 11 KWG. This figure is the ratio of cash and cash equivalents available within a month to the payment obligations falling due in this period. Liquidity is considered adequate if the ratio is at least 1.00. At HVB, this figure increased to 1.38 at the end of December 2012, compared with year-end 2011 (1.26).

Requirements and impact of Basel III on HVB

In 2010, the Basel Committee on Banking Supervision of the Bank for International Settlements (BIS) published a set of reforms with a view to strengthening the resilience of the banking sector by enacting stricter global rules for equity capital and liquidity. The Basel III reform essentially comprises more stringent qualitative and quantitative capital requirements complete with additional liquidity standards comprising a short-term (Liquidity Coverage Ratio) and a long-term ratio (Net Stable Funding Ratio) as well as a non-risk-sensitive debt ratio (Leverage Ratio). Furthermore, the reforms include an expansion of the content of the monitoring process and the disclosure rules.

The Basel reform measures are implemented at European level by the Capital Requirement Regulation (CRR) and the Capital Requirement Directive (CRD IV). CRD IV is a guideline that the individual member states are required to translate into national law. The CRR is a regulation that is immediately binding on all EU financial institutions without having to be translated into national law. This means that the CRR has immediate binding effect for all German financial institutions. The Basel reform package called for implementation in national and European law to take place in 2012 and the requirements to take effect from 1 January 2013. A transition period through to 2018 is permitted for certain requirements in order to give the banks enough time to adapt to the stricter requirements. In December 2012, the Basel Committee published a revised reform proposal regarding the new Liquidity Coverage Ratio (LCR). The LCR is intended to ensure that enough high-quality liquid assets are on hand to cope with a one-month stress scenario. To satisfy the LCR, the high-quality liquid assets to net cash outflows must be at least 100%. This new proposal eases the qualitative requirements. It includes a graduated increase in the minimum requirement from 2015 to 2019 that requires a level of at least 60% to be achieved in 2015 and 100% in 2019.

There was no agreement at EU level (EU commission, European Parliament and the Council of the European Union) in 2012 on the implementation of the Basel reforms. In light of this, the new regulatory requirements have not been adopted at either EU level or at national level, and hence did not come into force in January 2013.

HVB enjoys a very strong capital base. At 31 December 2012, the core capital ratio without hybrid capital amounted to 17.5% as a proportion of total risk-weighted assets including market risk and operational risk. This means that HVB not only comfortably surpasses the current regulatory requirements, it would also satisfy the regulatory minimum capital ratios implemented by Basel III in full. In light of this strong capital foundation and solid liquidity base, HVB is well-prepared for the Basel III requirements. It already met the liquidity ratios redefined under Basel III – Liquidity Coverage Ratio and Net Stable Funding Ratio – by more than 100% at year-end 2012.

Ratings

In the course of the ongoing sovereign debt crisis, the major international rating agencies Standard & Poor's, Moody's Investors Service and Fitch Ratings re-examined their assessments of banks' credit standings in 2012. Both Fitch (A+) and Standard & Poor's (A) retained their long-term ratings for UniCredit Bank AG. Only Moody's chose to downgrade our long-term rating one notch from A2 to A3 when reassessing the whole German banking industry. In this context, most of the banking industry was reassessed by Moody's and largely downgraded.

In February 2012, rating agency Standard & Poor's modified the rating for our corporate parent, UniCredit S.p.A., to match the long-term rating for Italy (BBB+). Moody's followed in July 2012 with a downgrade of the long-term rating to Baa2, while Fitch Ratings confirmed its A– rating in February 2012 in line with its assessment of the Italian state.

Business Situation and Trends (Continued)

Offices

HVB maintained 614 bank offices in Germany and 17 offices abroad at 31 December 2012.

Offices broken down by region

		ADDITIONS	REDUCTIONS		
	1/1/2012	NEW OPENINGS	CLOSURES	CONSOLIDATIONS	31/12/2012
Germany					
Baden-Wuerttemberg	25	—	—	1	24
Bavaria	370	—	—	—	370
Berlin	9	—	—	—	9
Brandenburg	8	—	—	—	8
Bremen	—	—	—	—	—
Hamburg	24	—	—	2	22
Hesse	11	1	—	—	12
Lower Saxony	25	—	—	—	25
Mecklenburg-Western Pomerania	8	—	—	—	8
North Rhine-Westphalia	17	—	1	1	15
Rhineland-Palatinate	22	—	—	—	22
Saarland	9	—	—	—	9
Saxony	11	—	—	—	11
Saxony-Anhalt	11	—	—	—	11
Schleswig-Holstein	59	—	—	—	59
Thuringia	9	—	—	—	9
Subtotal	**618**	**1**	**1**	**4**	**614**
Other regions					
Africa	**1**	**—**	**—**	**—**	**1**
South Africa[1]	1	—	—	—	1
Americas	**4**	**—**	**—**	**—**	**4**
USA	2	—	—	—	2
Cayman Islands	1	—	—	—	1
Brazil[1]	1	—	—	—	1
Asia	**8**	**—**	**2**	**—**	**6**
Hong Kong	1	—	—	—	1
Singapore	1	—	—	—	1
Japan	1	—	—	—	1
United Arab Emirates[1]	2	—	1	—	1
Iran[1]	1	—	1	—	—
South Korea[1]	1	—	—	—	1
Vietnam[1]	1	—	—	—	1
Europe	**6**	**—**	**—**	**—**	**6**
Greece	1	—	—	—	1
UK	1	—	—	—	1
Italy	1	—	—	—	1
Norway[1]	1	—	—	—	1
Austria	1	—	—	—	1
Switzerland	1	—	—	—	1
Subtotal	**19**	**—**	**2**	**—**	**17**
Total	**637**	**1**	**3**	**4**	**631**

1 Representative offices

Structure and business operations

Legal corporate structure

UniCredit Bank AG (HVB) was formed in 1998 through the merger of Bayerische Vereinsbank Aktiengesellschaft and Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft. It is the parent company of HVB Group, which is headquartered in Munich. HVB has been an affiliated company of UniCredit S.p.A. (UniCredit), Rome, Italy, since November 2005 and hence a major part of UniCredit corporate group from that date as a subgroup.

Since the shares held by minority shareholders of HVB were transferred to UniCredit compliant with Section 327a of the German Stock Corporation Act (Aktiengesetz – AktG), as resolved at the Annual General Meeting of Shareholders in June 2007 and entered in the Commercial Register in September 2008, UniCredit has held 100% of the capital stock of HVB. Thus, trading in HVB shares officially ceased. HVB does, however, remain listed on securities exchanges as an issuer of debt instruments such as Pfandbriefs, bonds and certificates.

Organisation of management and control, and internal management

The Management Board is the management body of HVB. It is directly responsible for managing the Bank. It is obliged to act in the interests of the company and to increase its sustainable value. Within the framework of its leadership function, it is responsible for corporate planning and strategic orientation, and for ensuring adequate risk management and risk control. The Management Board provides the Supervisory Board with regular, timely and comprehensive reports on all issues relevant to corporate planning and strategic development, the course of business and the state of HVB, including the risk situation and significant compliance issues. The members of the Management Board are jointly responsible for managing the Bank. The responsibilities of the Management Board of HVB are specified in a schedule of responsibility, which forms part of the Management Board's internal regulations. The Management Board's internal regulations also specify particularly the matters reserved for the Management Board and the requirements for adopting resolutions and the required majorities.

The Management Board consisted of seven members until 31 December 2012. In addition to the Board spokesman, the Management Board included the heads of the Corporate & Investment Banking, Family & SME and Private Banking operating divisions as well as the Chief Financial Officer, the Chief Risk Officer and the Head of Human Resources Management, who is also responsible for Global Banking Services. At the extraordinary meeting of the Supervisory Board on 7 December 2012, Dr Andreas Bohn was elected to the Management Board of HVB with effect from 1 January 2013. Since 1 January 2013 the Management Board has thus consisted of eight members. In the course of adjusting the business model to reflect the rapidly changing economic and regulatory environment (see the section entitled "Underlying conditions and general comments on the business situation"), HVB realigned its organisational structure. With effect from 14 January 2013, three business segments were created and responsibilities on the Management Board were reallocated accordingly. Since then, Mr Diederichs has been the member of the Management Board responsible for the Unternehmer Bank business segment, Mr Buschbeck and Mr Danzmayr for the Private Clients Bank business segment (the latter focusing on private banking) and Dr Bohn for the Corporate & Investment Banking business segment. Other responsibilities on the Management Board have remained unchanged.

The Supervisory Board of the Bank has 12 members and has an equal number of employee and shareholder representatives. The task of the Supervisory Board is to monitor and regularly advise the Management Board as it conducts its business.

A list showing the names of all of the members of the Management Board and the Supervisory Board of HVB is given in the section entitled "List of Executives and Outside Directorships" in the notes to the annual financial statements.

HVB's objective is to generate a sustained increase in corporate value. To take account of value-based management, we have implemented the principle of overall bank management based on the determination of regulatory and economic capital requirements and risk-taking capability. This is explained in the Risk Report (please refer to the sections "Integrated overall bank management" and "Implementation of overall bank management" under "Overall bank management").

Business Situation and Trends (Continued)

Human resources

HVB had a workforce of 15,657 (in full-time equivalents) at 31 December 2012 (2011: 15,947). The fluctuation rate that has been falling for years amounted to 1.8% during the reporting period. For many years, we have utilised the potential for making working time more flexible. At 23.8%, the proportion of part-time workers at HVB was somewhat higher than in 2011 (23.0%).

At HVB, we like to think of ourselves as a working family. As a member of UniCredit, one of the leading banks in Europe, HVB puts great faith in cross-divisional and cross-company networks and multinational organisation teams. In this context, we have initiated a series of measures and programmes aimed at developing our managers and staff. These include things like the Country Chairman's Leadership Club, a programme to cultivate leadership skills. The UniFuture leadership development programme is designed for managers who demonstrate the potential to join UniCredit's leadership team. Added to this are processes serving to appraise potential and performance, like the Executive Development Plan and the Talent Management Review. Moreover, there is also a wide range of development instruments for managers in each of HVB's divisions. We also employ staff-development programmes like JUMP! for junior talents, First Steps for apprentices and UniQuest to further the careers of talented junior staff.

The regulatory requirements for the remuneration systems of larger financial institutions were specified and tightened at the end of 2010 based on the relevant legislation (Instituts-Vergütungsverordnung). We have adapted and refined our remuneration systems in accordance with the new regulations. This applies in particular to our senior executives. In order to strengthen long-term incentives, we have introduced longer retention periods for variable remuneration and higher proportions of stock.

Promoting the health of our employees is also an important issue for us. In 2010, HVB's five-year Healthy Company project was launched with a view to creating an awareness of work-related medical conditions and devising solutions. Our self-image as a good employer also encompasses promoting a healthy work-life balance. HVB has been certified several times by the not-for-profit Hertie Foundation under its Work and Family Audit. We have also been active in the "Success Factor: Family" initiative of the German Ministry for Family, Senior Citizens, Women and Youth since 2008.

The active involvement and support of all employees is crucial to HVB's commercial success. UniCredit's annual People Survey, which was last carried out in November 2012, serves as an indicator of the status of the corporate culture and the satisfaction of the employees with the working conditions and management. The overall results for HVB have improved satisfactorily, showing a stronger commitment of our employees to the Bank's goals and their sense of belonging as compared with the previous year.

Diversity – which is synonymous with respecting and promoting variety – is one of the fundamental values of UniCredit. Promoting gender diversity is one of the top priorities for both UniCredit and HVB. This means intensively promoting the specific potential of talented women and integrating them into management. We have set ourselves the ambitious goal of filling 30% of all senior positions at HVB with women by 2017. To achieve this goal, we have already introduced a number of measures, including: a selection procedure for filling management positions; fostering the professional development of women in management positions through the UniCredit Women's International Network; and a mentoring programme for female managers. Furthermore, in 2009 HVB became the first bank in Germany to set up a Women's Council. This committee comprises 30 top-class female entrepreneurs and managers.

Sustainability

Uncertainty is still tangible among consumers and investors alike due to their experiences in the ongoing financial and sovereign-debt crisis. In order to permanently secure their trust and confidence in us as a bank, it is necessary to act with integrity and have long-term business models. HVB has professed its commitment to the guiding principle of sustainable development since the beginning of the 1990s.

Besides a solid financial foundation, HVB has built on its good reputation for years. To implement our all-round stakeholder approach, we conduct consistent sustainability management aligned with the three dimensions of sustainability: people, the environment and business. A solid capital base is as much a part of this concept as ecologically and socially responsible lending or the development of sustainable investments. For us, further key sustainability issues are excellent customer service, treating our employees in a responsible manner, environmentally friendly banking operations and our commitment to a fair and forward-looking society. In 2012, we defined specific, timed objectives for all areas of action in a sustainability programme which will be continuously updated in future. Whether and how far we achieve these objectives will be documented in a sustainability report published on an annual basis. For the sake of transparency, HVB also issued a statement of compliance with the German Sustainability Code at the end of 2012.

HVB determines the expectations of its stakeholders through systematic reputation management. We gain an impression of the reputation we enjoy among customers, employees and opinion leaders as well as of decisive reputation factors by conducting surveys on a regular basis. By doing so, we simultaneously identify new topics which we must tackle from a strategic or operational view in order to avoid risks but also to exploit the opportunities involved. The section of the Risk Report entitled "Reputational risk" contains comments on the definition, strategy, measurement, monitoring and controlling of social and ecological risks as part of reputational risk management.

As a financial institution, we have a significant influence on ecologically and socially responsible development through our business operations. HVB is one of the biggest financers of renewable energy in Europe and thus an important partner in the implementation of Germany's energy transition. Among other things, we advise our customers on the KfW development programmes for energy-efficient construction and renovation and on financing renewable energy at two centres of competence in Munich and Düsseldorf. At the same time, HVB has been offering a wide-ranging portfolio of sustainable products for many years and has participated in the European Union's emissions trading scheme since its inception in 2005.

With a view to creating value for our customers, HVB is making every effort to constantly adapt and enhance its advisory services to reflect changing requirements.

In order to protect customers from ill-considered decisions, HVB has introduced product information sheets covering all financial products in the fields of investment, securities, payments, pensions and financing, many of which are in English and Turkish. This exceeds our statutory obligations. Through our neutral financial education portal EURO.DE, we offer both customers and non-customers alike easily understandable answers to questions about topics such as pensions, investments and loans. We inform our customers about our understanding of sustainability and our specific services in a sustainability brochure, which has been on display at all HVB branches since autumn 2012.

HVB has employed a certified environmental management system to manage its own actions to protect the environment since 2006. In 2010, HVB already met the climate goal of reducing in-house carbon emissions by 30 percent (base year: 2008) before 2020. We obtain our electricity solely from renewable sources, and we offset our heating energy through the purchase and deactivation of carbon certificates. This means that all our buildings are run in a way that is climate-neutral, signifying an annual reduction totalling some 90,000 tons of CO_2. We have implemented 85 percent of our next project aimed at making our entire banking operations climate-neutral. In terms of in-house environmental protection, we aim to make our entire banking operations climate-neutral in 2013.

Within the financial world, HVB plays a leading role in terms of sustainable business operations thanks to its consistent strategic orientation over many years. This is also affirmed by numerous awards and good rating results: the sustainability rating agency oekom research AG has given HVB its "Prime" designation for eleven years in a row. We have been listed in the Dow Jones Sustainability Index (DJSI) and FTSE4Good, the leading international sustainability indexes, for years through UniCredit.

Main products, sales markets, competitive position and facilities in the 2012 financial year

As a universal bank, HVB with its subsidiaries is one of the leading providers of banking and financial services in Germany. It offers a comprehensive range of banking and financial products and services to private, corporate and public-sector customers, and international companies. This range extends, for example, from mortgage loans, consumer loans, savings-and-loan and insurance products as well as banking services for private customers, business loans and foreign trade financing for corporate customers through to funds products for all asset classes, advisory and brokerage services, securities transactions, liquidity and financial risk management, advisory services for affluent customers and investment banking products for corporate customers. HVB has a well-developed network of branches in Germany via which it serves its customers. Because of its past, the Bank is particularly strong in Bavaria as well as in Hamburg and the surroundings.

Business Situation and Trends (Continued)

HVB is a universal bank with considerable strengths in traditional and modern corporate banking. On account of these strengths, it became the centre of competence for the international markets and investment banking activities of the entire UniCredit corporate group. The Corporate & Investment Banking division serves around 46,500 corporate customers in its national and international sales network. The business model focuses on different customer groups and the customer relationship as a decisive factor in the allocation of resources while the structures reflect the requirements in a hard-fought market in a continual process of adjustment.

The business success of the Corporate & Investment Banking division is based on the close cooperation and coordination between the sales, service and product units as well as on its collaboration with other countries and divisions of UniCredit. The three global product lines – Markets, Financing & Advisory and Global Transaction Banking – are integral parts of the division's integrated value chain. They support customers in strategic, transaction-based activities, solutions and products. In the light of the change in markets and increase in market risks, we are seeking to closely support customers. We also cover all the corporate banking needs of our customers, including in areas like restructuring, growth and internationalisation. This requires up-to-date knowledge of specific branches and markets which also meets the growing demands on a finance provider. Until the end of 2012, the Corporate & Investment Banking division served corporate customers with annual revenues of more than €50 million. Our customer segmentation criteria and sales channel differentiations are based on various challenges, demand structures and processing standards.

We want to be the first port of call for our customers in terms of advisory expertise, product and process quality as well as creation of value. At the same time, we seek to build stable, strategic business partnerships in the long-term and to bolster our position as a core bank for customers in commercial and investment banking. The Corporate & Investment Banking division supports our customers in their positioning, growth and internationalisation by acting as an intermediary to the capital market. An integrated value-added chain consisting of a service network and product specialists ensures high-quality advisory services with a creative, solution-based approach. In 2012, it focused on customer-related operations, an expansion of the integrated value-added chain in Financing & Advisory through Capital Markets solutions (transfer of the Capital Market units from Markets to Financing & Advisory), transactions with a low absorption of risk assets and optimised liquidity management. In addition, some employees were transferred to strengthen our core business and to reduce unprofitable units.

In the Family & SME (F&SME) division, we served around three million customers at the end of 2012 who are divided into the following strategic target groups: mass market, affluents, small and medium-sized enterprises including business customers. These customer groups were served on the basis of different service models that reflect their individual needs. Our main aim in the mass-market target group is to increase the penetration of attractive customer groups, offer a lean and demand-based product range and promote the acquisition of new customers. In the affluents target group, we are building on greater use of mandated products (such as asset management) and the systematic development of customer contacts with the aim of winning new customer funds. To do so, we are continuing to invest in systematic customer contact, constantly refining both our needs-based approach and our products. For business customers, we focus on borrowing requirements in connection with customer-friendly loan processes, the development of customers' needs for private purposes and the continued expansion of our specialisation in the target groups: public sector, health care professions, insolvency administrators and agriculture. Besides traditional sales via our branches, we offer business customers all of the classic services for the self-employed and tradespeople via a hotline with a personal customer contact. In addition, HVB also offers video consultations for retail customers outside branch office opening hours as the first national branch bank in Germany to do so. This will enable the extent of advice provided and the flexibility to again be considerably improved regardless of the size of the branch in the course of further expansion. In the field of medium-sized enterprises, we build on a high standard of quality in our advisory services for companies and, by incorporating government subsidies and payments solutions, tailored financing solutions which also serve to optimise the working capital management, in addition to offering classic cash management services.

The primary objective of the Family & SME division is a consistent customer orientation based on an optimum service culture. This was achieved by providing a high standard of advice and service, by optimising the product range and expanding multi-channel management. Professional advisory tools ensure consistent quality standards and individual advisory services at a high level. For medium-sized companies, this is safeguarded by a strategic dialogue supported with business advisory tools. Specialists for advice on real estate finance, succession planning and pensions as well as tailored advice on securities help us to implement our quality strategy.

HVB has a good positioning in private banking. With 46 offices, around 45,400 customers served and a market share of around 5% in the affluent retail business segment in Germany, the Private Banking division was one of the market leaders in this business segment at the end of 2012. In the wealthiest regions of Germany, Bavaria and the Hamburg area, HVB has an excellent competitive position due to its historically strong local presence and proximity. HVB has set itself the goal of significantly bolstering this business, which requires little capital and is thus highly attractive. Positioned under Private Banking, Private Wealth Management, which serves very wealthy affluents, will be or rather was significantly expanded through an increase in facilities and staff so that the market potential that is identified can be tapped in the best way possible. Consequently, the preconditions are being put in place for the long-term growth of Private Banking, which is founded on a comprehensive range of products and solutions, and includes the clearly defined internal cooperation with the F&SME and CIB divisions. Based on a clear strategic orientation with a focus on the most attractive private-banking customer segments and an all-round personalised relationship model, HVB has succeeded in expanding its position among the leading private-banking players in Germany.

Adjustment of the business model from 2013

HVB is adjusting its business model in 2013 to reflect the rapidly changing economic and regulatory environment and pushing further growth through a regional organisational structure and a stronger entrepreneurial focus. From 2013, HVB will realign its structure to create three business segments: Unternehmer Bank, Private Clients Bank, and Corporate & Investment Banking. In its German activities, HVB will rely on more entrepreneurialism in the regions and the new structure will consistently strengthen its regional presence.

Private Clients Bank will serve all private customers, ranging from typical retail customers to private banking clients. The medium and long-term changes and trends in customer behaviour are playing an ever greater role for both retail and private banking customers which means that closer integration in the development of innovative sales channels and services can create added value for both customer segments. At the same time, the structure will allow tailored services that meet the special requirements of the top customer segment.

The Mittelstand of small and medium-sized enterprises forms the backbone of the German economy. Going forward, HVB's Unternehmer Bank will provide extensive services to these customers together with its business and real estate customers. With its new structure HVB is continuing to consolidate its position as a bank for entrepreneurs. Today, HVB is already the second largest lender in Germany. Our aim is to establish a true entrepreneurs' bank that combines the advantages afforded by regional proximity with those of an international bank and serves companies ranging from freelancers and small family-owned companies to large corporate customers. Entrepreneurs should benefit even more strongly from regional advantages and an all-round service. In future, the Unternehmer Bank will serve business, corporate and real estate customers. At the same time, the service concept will remain the same. Due to the close correlation with businesses, the complex assets of entrepreneurs and customers with an entrepreneurial background, meaning their private financial matters, will be managed in the Unternehmer Bank. In the process, we will focus on providing a comprehensive service to entrepreneurs through personalised solutions, particularly portfolio solutions and advice at institutional level as well as special products but also tailored finance, asset consolidation and foundation consultancy services.

Unternehmer Bank and Private Clients Bank activities will both be conducted in six regions. The heads of these regions will pursue an entrepreneurial approach in the development of their region and will ensure a uniform presence for HVB and professional customer care at local level.

From 2013, the Corporate & Investment Banking business segment will be responsible for investment banking, institutional and select multinational corporations as well as large companies engaged in capital market activities (referred to as "corporates"). These customers will be supported by an integrated added value chain consisting of a service network and product specialists. In future, the Corporate & Investment Banking business segment will also cover the Markets and Financing & Advisory (F&A) product lines and product factories, operations with financial service providers and private equity funds as well as Global Transaction Banking (GTB). The Corporate & Investment Banking business segment ensures high-quality advice with a tailored and solution-based approach and acts as an intermediary to the capital market. HVB continues to be the centre of competence for the international markets and investment banking operations of the entire UniCredit Corporate Group. In addition, the Corporate & Investment Banking business segment also acts as a product factory for the Private Clients Bank and the Unternehmer Bank.

In this way, HVB is creating an excellent position for further successful growth in the German market. As HVB considers it essential to maintain a stable partnership between customer and relationship manager, customers will retain their existing relationship managers when the new structure is implemented.

Business Situation and Trends (Continued)

HVB is part of an international banking group which offers its financial services on the European market in particular. This enables us to combine our regional and divisional strength and local competence with the potential and know-how provided by an international banking group. Our integration into UniCredit is an ideal basis for swiftly and effectively exploiting market opportunities and cushioning risks. The future of HVB also lies in consistently leveraging the advantages gained from economies of scale and other strategic assets resulting from our integration into UniCredit. UniCredit has a well-balanced business model in divisional and regional respects with bases in 22 countries. Apart from the domestic markets of Germany, Austria, Poland and Italy, it is one of the leading banks in the countries of central and eastern Europe. In particular, it is our corporate customers who benefit from this international diversification.

A breakdown of the offices of HVB by region is shown in the section entitled "Offices" in the Management Report.

Relations with affiliated companies

We have prepared a separate report on our relations with affiliated companies in the 2012 financial year which contains the following declaration made by the Management Board in accordance with Section 312 of the German Stock Corporation Act (AktG):

"We declare that, based on the circumstances known at the time the legal transactions listed in this report were entered into, or the measures listed in this report were undertaken or omitted, UniCredit Bank AG received appropriate consideration for each transaction and did not suffer any disadvantage as a result of measures undertaken or omitted."

Events after 31 December 2012

At the extraordinary meeting of the Supervisory Board held on 7 December 2012, Dr Andreas Bohn was appointed to the Management Board of HVB with effect from 1 January 2013. He will assume responsibility for the Corporate & Investment Banking business segment (see also the section of this Business Situation and Trends and internal Management entitled "Organisation of management and control, and internal management").

The modifications to the business model described above take effect from January 2013. This represents the start of implementing the new organisational structure at HVB with a stronger regional and entrepreneurial orientation and clearer lines of responsibility for customers regionally. Among other things, the next steps in establishing the Unternehmer Bank and Private Clients Bank business segments consist of staffing the team leader positions in the Unternehmer Bank, setting up the specialist organisation and making adjustments to the central competence lines and lending units.

In order to enhance the capital structure of HVB, we carried out a further buy-back of hybrid capital instruments with a nominal amount of €287 million during the first quarter of 2013. After this buy-back, the outstanding hybrid capital instruments totalled a nominal amount of less than €50 million.

Outlook

The Management Report and the rest of the Annual Report include statements, expectations and forecasts concerning the future. These statements are based on plans and estimates that are supported by information available to us at the present time. We assume no obligation to update these statements in the light of new information or future events. Known or unknown risks and uncertainties may be entailed in forward-looking statements, and the actual results and developments may thus differ significantly from those expected at present. Such discrepancies may result particularly from changes to the general economic situation and the competitive situation, developments on international capital markets, the possible default of borrowers or contracting parties in commercial transactions, the implementation of restructuring measures, amendments to national and international laws relating to supervisory and tax regulations, the reliability of our risk-management procedures and methods as well as other risks, some of which are described in detail in the Risk Report.

General economic outlook and sector development in 2013

The global economy and the international financial markets will continue to face a high degree of uncertainty in 2013. However, we believe that there is a good chance of a moderate recovery in the global economy in the course of the coming year for the following three reasons:

First, the Chinese economy should gain some momentum in view of the moderate stimulus generated by monetary and fiscal policy moves and the major structural deficiencies that still remain to be overcome.

Second, the fiscal austerity measures in the majority of crisis-ridden eurozone countries will gradually ease, as significant progress has been made in cutting deficits in many jurisdictions.

Third, fears of a eurozone break-up have greatly abated since the ECB announced its OMT programme.

In the United States, the postponement of a long-term solution to the immense public financing shortfall represents a clear downside risk. The politicians still have to reach agreement in the coming months on raising the debt ceiling and on massive, long-term spending cuts in order to avoid jeopardising the increasingly robust economic recovery. Buoyed above all by the steady recovery on the labour market and the upward trend in the housing market, we expect growth to total 2.1% in 2013.

Despite recent trends pointing to an easing of the sovereign debt crisis in the eurozone, a final conclusion to the situation is not yet foreseeable. The weak economy will necessitate further cost-cutting measures in most countries. This will continue to weigh down the domestic economy in the coming quarters. Still particularly uncertain and therefore challenging are the prospects for Greece, where the situation continues to spiral downward, with no end in sight. By contrast, Italy appears set to move out of recession by the spring, with relatively minor additional burdens in its domestic economy. Higher burdens than last year are again expected for Spain, which means that its recession should continue until mid-year. Following the weakness in core eurozone countries at the end of 2012, we expect the growth trend to gradually return in early 2013 on the back of an improved outlook for the global economy. In 2013, we project eurozone GDP to decrease by a slight 0.1% year-on-year in real terms.

As for the German economy, we believe that it can achieve GDP growth of 0.8% in 2013 despite the slowdown at the end of 2012. Exports will gradually return to an upward trend, while domestic demand should remain stable. The activities of German exporters will receive a boost from the emerging Asian economies, a gradual improvement in the eurozone and a stable US economy. Although German companies are unlikely to undertake substantial increases in capacity amid the continuing serious uncertainty, domestic demand should generally prove relatively robust. In view of the wage increases already agreed for 2013, consumer spending will be backed by increases in income. Although companies have recently scaled back their hiring plans, on the whole we expect the labour market to move sideways at a healthy level in 2013. A second source of support for solid domestic demand remains the residential property market, fuelled by low unemployment, prevailing fears of inflation and interest rates at record lows. A renewed flare-up of the eurozone crisis could put heavy pressure on German exports and investment activity. Exports to eurozone countries remain the bread and butter of German companies, accounting for around 38% of the total. A waning appetite for risk could have a further negative impact on investment activity, as companies could shy away from long-term commitments due to the high level of uncertainty.

The announcement of unlimited purchases of government bonds by the European Central Bank, subject to certain conditions, and the favourable ruling on the European Stability Mechanism (ESM) by the German Constitutional Court in the third quarter of 2012 had a very positive impact on the general funding options available to banks. This situation can be expected to continue in 2013, although the risk of occasional volatility, triggered by political events, is far from negligible. Despite this improvement in the funding environment, reinforced by the ECB's long-term tenders, the banking sector still faces significant challenges, from both the overall economic environment and pending regulatory initiatives by banking supervisors.

The plentiful liquidity made available to the banking sector only addresses the symptoms and not the causes of the structural problems in the financial markets. Efforts to fight those causes have since been launched, but will need time before fully taking effect. Until then, the level of debt will probably increase in many countries in the short term. Moreover, the austerity measures have negatively affected economic growth and led to rating downgrades, so that rising risk provisions and decreases in income can be expected. At the same time, the structural transformation of the banking sector will lead to adaptive measures that will generally result in additional restructuring expense.

The effects of the new regulations, such as the required adjustments arising from Basel III, are not yet entirely foreseeable, although the main outlines are in place. Equity capital will be subject to stricter standards in terms of quality and quantity, which is likely to lead to lower profitability. Moreover, banks classified as systemically important will be required to hold more equity capital. In addition, banks face the permanent burden of banking levies and the future financial transaction tax. Questions remain regarding the final form of the EU Crisis Management Directive, which will regulate the share of

Business Situation and Trends (Continued)

creditors in bank losses at the European level, alongside the Markets in Financial Instruments Directive (MiFID) as well as the EU Directive on Deposit Guarantee Schemes.

In February 2013, the federal cabinet in Germany approved draft legislation on banking regulation, including plans requiring banks to segregate certain trading activities (segregation of commercial and investment banking), regulations requiring banks to submit their own recovery and resolution plans, and stricter liability rules for managers:
- The key factors in this draft legislation regarding the separation of proprietary trading activities to a separate legal entity are: the assets held-for-trading and AfS financial instruments exceed a threshold of €100 billion or these positions represent more than 20% of the balance sheet and total assets have exceeded €90 billion over the past three years. On the basis of the existing wording of the draft legislation, we cannot rule out the possibility that HVB will be affected.
- Systemically important banks, both at the global and national levels, will be required to draw up restructuring plans for crisis situations, specifying courses of action for specific scenarios.
- The draft legislation also calls for new penalties to be introduced in Section 54a KWG, under which managers may face up to five years' imprisonment or fines if it is determined that the viability of a bank or its corporate group as a going concern is jeopardised by a failure to have in place the strategies, processes, functions or concepts required by the German Banking Act.

The draft legislation described above was discussed and approved by the German cabinet at the beginning of February 2013 with the next step now being the parliamentary legislative process. At present, it is not possible to assess the effects of this bill on the assets, liabilities, financial position, and profit or loss of HVB. In addition, it is not sufficiently clear to us – or the financial sector as a whole – whether and to what extent the recommendations in the Liikanen Report, in particular on the introduction of mandatory separation of proprietary trading activities to a separate legal entity, will be implemented in the European Union.

Equally difficult to assess at present are the effects on the European banking sector of the single supervisory mechanism in the eurozone, which was agreed by European leaders in December 2012. This will take effect as of March 2014, applying to banks with assets in excess of €30 billion or 20% of domestic GDP.

General economic outlook and sector development in 2014

The global economic recovery expected for 2013 should continue into the next year, in particular with a further alleviation of the stresses in the countries affected by sovereign debt crises. The emerging economies will probably drive global growth, helped by a further slight increase in the growth rate in the United States. On the back of the anticipated 1.5% GDP growth in Germany, overall economic output in the eurozone should also increase by 1.2%.

Assuming a further easing of the eurozone debt crisis and a return to economic growth, the banking sector can expect to enjoy a healthier income situation in 2014 than in recent years – even after taking into account the burden imposed on earnings by the constant increase in supervisory requirements.

Development of HVB

HVB earned a very good profit before tax of €2,006 million in 2012 despite the challenging market conditions. A major contributing factor was the very high net income from the held-for-trading portfolio, which reflected a positive effect amounting to €395 million from the reversal of the credit value adjustment as well as the overall market trend.

With the difficult market conditions forecast to continue in 2013, HVB does not expect to match the very good result from the reporting period, in particular because the 2012 figures reflected the positive effect from credit value adjustments. Due to the persistently high level of uncertainty entailed in the macropolitical environment in Europe and the resulting high structural volatility of financial and capital markets, forward-looking statements on performance are fairly unreliable. Based on our business model and the assumption that the political and macroeconomic environment will remain relatively stable, we assume that we will again be able to generate a good profit before tax in 2013. In this "stable scenario", we expect to generate a pre-tax result in 2013 roughly equalling the level of 2012 (adjusted for one-off effects).

HVB expects a year-on-year decline in operating income in 2013, in particular due to a significant decrease in net income from the held-for-trading portfolio. It should be noted, however, that the good figure posted for net income from the held-for-trading portfolio in 2012 benefited from the non-recurrent effect from the reversal of credit value adjustments mentioned above. Interest income should be close to the previous year's total, as interest rates appear likely to remain very low. Interest margins will remain under pressure again in 2013 owing to the low interest rates. Further negative effects on interest income will result from the low return on equity, which is falling in line with the prevailing interest rates, and the high non-interest bearing liquidity reserves with central banks. By contrast, we expect a pleasing year-on-year increase in commission income earned across all operating divisions, which should be generated in particular from management, brokerage and advisory services as well as the lending business. General administrative expenses should remain close to their 2012 level, despite the anticipated inflation rate of 1.8%, as a result of the strict cost management that we have been practising for several years now. In particular, a slight decrease in payroll costs should offset a moderate rise in other administrative expenses and amortisation, depreciation and impairment losses on intangible and tangible assets to a large extent. We expect provisions for losses on loans and receivables to be higher in 2013 than in the 2012 financial year but still at a moderate level.

The expectations concerning the performance of HVB for the 2014 financial year are much more difficult to formulate. Provided that the underlying economic conditions develop favourably both in Germany and worldwide and there is no sharp economic downturn, we assume that the profit before tax of HVB will develop favourably, while operating income will rise, particularly due to net income from the held-for-trading portfolio and net interest, while general administrative expenses will remain stable.

The results trends at HVB in 2013 and 2014 for the individual operating divisions are as follows:

HVB's performance in the 2013 financial year will again depend in large part on the operating performance of the Corporate & Investment Banking (CIB) division, and in particular its earnings and the provisions for losses on loans and receivables. We expect CIB's operating income to decline in 2013, mainly related to a fall in net income from the held-for-trading portfolio, which benefited in the year under review from the above-mentioned effect from the reversal of credit value adjustments. We expect a slight decrease in net interest as compared with the reporting period despite a planned increase in credit volumes, as margins will remain under pressure due to the low interest rates. CIB has budgeted for a strong increase in net fees and commissions in all departments, primarily from advisory services related to the expansion of lending business. In the F&A product unit, this is to be achieved through a focus on our strong market positioning (for example in global capital markets) and the expansion of advisory mandates. In GTB, the goal is to expand the customer base and engage in systematic customer planning (interplay between product line and sales in terms of cross selling, repricing and generating new business, particularly trade finance unit). In Markets, we plan to expand the product portfolio, particularly in the Corporate Treasury Sales unit, which should also result in an increase in income from fees and commissions. The general administrative expenses should remain stable, with payroll costs lower than in the reporting period. We also expect net write-downs of loans and provisions for guarantees and commitments to be down significantly in 2013. We expect profit before tax in the 2013 financial year to be slightly higher than the 2012 figure, adjusted for the special effect in net trading income.

We assume that the division will achieve a good operating performance in 2014 on the back of a significant increase in operating income and a slight decline in general administrative expenses.

We expect the Family & SME division to record a moderate rise in operating income in the 2013 financial year, to be achieved mainly through the significant budgeted increase in net fees and commissions. The focus will remain on the development of the mandate-based securities business – and thus the stabilisation of commission income – and on financial services. By contrast, the division's interest-linked business will continue to suffer under the low interest rates, but should probably match the 2012 results. The budgeted moderate

Business Situation and Trends (Continued)

increase in general administrative expenses is anticipated as a result of an increase in other administrative expenses. We expect a slight decline in payroll costs. On the back of the anticipated trend in operating income, the profit before tax in 2013 should exceed the 2012 figure, which was depressed by restructuring costs. The restructuring measures we have implemented are intended to streamline our branch network while investing in the expansion of our multi-channel offerings, including online branches, to address changing customer expectations. Consequently, the positive trend in results should continue in 2014, with a further rise in operating income. We therefore expect the profit before tax to improve again in 2014, accompanied by a slight rise in general administrative expenses.

We also expect the Private Banking division to record higher operating income in 2013, particularly on the back of an expected rise in net fees and commissions. In addition, the growth strategy will be pursued with a focus on stabilising income. This will build primarily on the Depot Global pricing model, which was launched very successfully in 2012, and the further expansion of asset management products. In terms of net interest, the margin on deposits will probably remain under pressure, as interest rates appear likely to remain low. Consequently, interest income could be slightly lower than in the reporting period. All in all, the profit before tax should increase due to the anticipated rise in operating income, although general administrative expenses will also be up slightly. The upward trend in operating income will continue in 2014, and general administrative expenses will then decline slightly. Consequently, we should again be able to post a year-on-year improvement in profit before tax in 2014.

The financial markets will continue to be affected by the unresolved sovereign debt crisis in particular. Consequently, the performance of HVB will depend on the future development of the financial markets and the real economy as well as on other remaining imponderables. In this environment, HVB will continually adapt its business strategy to reflect changes in market conditions and carefully review the management signals derived from this on a regular basis. With its strategic orientation and excellent capital resources, HVB is in a good overall position to effectively exploit the opportunities that may arise from the new operating environment, the further volatility that can still be expected on the financial markets and an expanding real economy.

Opportunities and risks in terms of future business policy and corporate strategy, performance and other opportunities and risks

HVB is an important part of one of the largest, best-positioned banking groups in Europe: UniCredit. It is one of the largest financial institutions in Germany and has core competence for all UniCredit customers, products and markets in Germany. In addition, it is the centre of competence for the international markets and investment banking of UniCredit as a whole. HVB operates in a domestic market which is the largest in the whole of Europe in terms of economic power, population and the number of companies and upscale private customers. Moreover, Germany is one of the few countries worldwide that continues to have a financial rating of AAA. Hence, HVB, like no other German bank, can exploit its regional strength coupled with the opportunities that arise from the network of a leading European banking group for the benefit of its customers. The business model of HVB focuses on sustainability and – with the establishment in 2013 of the new business segments Unternehmer Bank, Private Clients Bank and Corporate & Investment Banking – meets the demands of a rapidly changing economic and regulatory environment. Combined with an excellent capital base, this means that HVB stands for reliability, stability and safety. This results in the opportunities and risks described below:

- The Corporate & Investment Banking and Unternehmer Bank segments will be strengthened by expanding products with a low level of equity and liquidity requirements and by winning deposits. The strategic focus is placed on consistent pricing in line with risk, a more intensive creation of value for customers to generate earnings and the further development of strategic customer transactions and solutions in investment banking. We offer top quality advisory services under a creative, solution-based approach by means of an integrated value chain consisting of network and product specialists. These business segments are well equipped to build on a sustained, long-term customer relationship. Even though investment banking activities are exclusively attuned to customers, the results in Corporate & Investment Banking naturally remain relatively volatile.
- The Private Clients Bank focuses on serving retail and private banking customers. The medium- to long-term changes and trends in customer behaviour are increasingly relevant for these customer groups, so that joint efforts to develop innovative sales channels and services can generate added value for both. Moreover, closer networking and cooperation in the development of products and services helps to exploit synergy effects. At the same time, the

structure allows the type of highly individual service needed to meet the special demands of top-level private banking customers. If the uncertainty of customers and the resulting restraint in their investment behaviour persists, coupled with the tendency to switch to lower-margin products, the earnings situation of this business segment could be negatively affected.
– The Private Clients Bank is an essential part of HVB's strategy as a German universal bank. In addition to consistently endeavouring to further industrialise processes and thus enhance efficiency, we intend to achieve strong retail customer operations partly by winning new customers. At the same time, we will constantly adapt to medium- and long-term trends in customer behaviour and, for instance, not only significantly expand our multi-channel range but also create added value for our customers in our traditional branch operations via excellent advice and innovative services and processes. Among other things, we intend to achieve this with an innovative service model, an optimisation of our branch network and branch format as well as through efficient sales management. Although the outlook for GDP growth is generally favourable, particularly in our domestic market in Germany, a downturn in economic growth could depress the earnings situation in this business segment through higher unemployment levels, a rise in insolvency rates and persistently low interest rates in particular.
– In our private banking activities, which are part of the Private Clients Bank, we will generate further growth through our good positioning in the business with affluent customers. In the process we will benefit from our appearance as a strong local bank with 46 locations in Germany and the close proximity and high frequency of communications. More new customers can be won in the new financial year through our structured, comprehensive advisory approach and our excellent service quality. However, competition in the market for very affluent customers will be much fiercer than in the past.
– HVB will proactively exploit opportunities arising from change and consolidation processes in Germany within the framework of a specialised business model with a clear emphasis on Germany. Due to the uncertainty of the consolidation and concentration in the German banking sector, it remains questionable as to how future earnings potential will be distributed between competitors and at what expense market shares can be won. Fiercer competition associated with this situation could negatively affect the earnings situation of HVB.
– HVB can respond swiftly and flexibly to expansion opportunities arising on the market. On account of its excellent capital base, it is already well equipped for any tightening of regulatory requirements and will be able to actively operate in the market even in that kind of scenario. If the statutory and regulatory framework should continue to become even more stringent as a consequence of the sovereign debt crisis and financial crisis, this could also lead to further expenses for the technical implementation of these additional requirements as well as higher capital costs.
– HVB continues to exploit further cross-selling potential in all customer groups and the opportunities to support customers demanding cross-border financial services in other markets where UniCredit is represented, and to further improve operating income by creating and using new products for all customer segments through tailored solutions.
– For years, HVB has been developing into a bank with strong and consistent cost management. The ability to manage costs is well developed throughout the Bank. It is seeking to further improve general administrative expenses in the coming years, in part by utilising synergies through the rationalisation of overlapping functions and optimising settlement processes, and by boosting efficiency by centralising IT functions throughout UniCredit.
– HVB has opportunities of winning highly qualified employees and managers as an attractive employer. Both the size of UniCredit and the strategic positioning of HVB have a beneficial impact on the recruitment of managers and employees. Supporting female managers at junior level is an explicit part of the business strategy.

We see further potential for opportunities in our long-term orientation to customers and other stakeholders, which is manifested in our Mission Statement.

Our Mission Statement:
– We UniCredit people are committed to generating value for our customers.
– As a leading European bank, we are dedicated to the development of the communities in which we live, and to being a great place to work.
– We aim for excellence and we consistently strive to be easy to deal with.
– These commitments will allow us to create sustainable value for our shareholders.

Risk Report

HVB as a risk-taking entity

By their very nature, the business activities of HVB are subject to risk. HVB defines risk as the danger of suffering losses or foregoing gains on account of internal or external factors. Deliberately taking on risk, actively managing it, and monitoring it on an ongoing basis: these are core elements of profit-oriented management of business and risk transactions by HVB. In the course of our business activities, risks are identified, quantified, assessed, monitored and actively managed. We therefore regard it as one of our core objectives to apply these considerations in order to integrate risk-management, risk-controlling and risk-monitoring processes in all segments and functions. These activities are the precondition for providing adequate capital backing and maintaining an adequate liquidity base.

The structure of the Risk Report was modified during the preparation of the 2012 financial statements. At the same time, the risk types have been regrouped as described below. Where there have been changes to the methods used to measure the risk types, these are described under the individual risk types concerned.

Risk types

Credit risk is defined as potential losses arising from a customer default or a downgraded credit rating. It arises mainly in the Corporate & Investment Banking (CIB) and Family & SME (F&SME) divisions.

Market risk is defined as the potential loss arising from an adverse change in the value of positions in the trading and banking books. Those Bank units that conduct trading activities or have significant capital market positions are exposed to such risk.

Liquidity risk is defined as the risk that the Bank will not be able to meet its payment obligations in full or on time. However, it is also defined as the risk of not being able to obtain sufficient liquidity when required or that liquidity will only be available at higher interest rates, and the risk that the Bank will only be able to liquidate assets on the market at a discount.

The Bank defines **operational risk** as the possibility of suffering losses from inadequate or failed internal processes, systems or external events, and human error. This definition includes legal risk.

We define **reputational risk** as a present or future risk to the earnings or capital situation of the Bank due to a negative perception of the Bank by customers, creditors, rating agencies, employees and regulatory authorities or other interest groups such as private associations and the media.

Business risk is defined by the Bank as losses from unexpected adverse changes in business volume and margins that cannot be attributed to other risk types. **Strategic risk** is a non-quantifiable portion of business risk that results from management being slow to recognise significant developments or important trends in the banking sector or drawing false conclusions about such developments and trends. This may result in policy decisions that may prove after the event to be disadvantageous in terms of the Bank achieving its long-term goals; in the worst case, some of these may be hard to reverse.

HVB classifies risks arising from our own real estate portfolio and from our shareholdings/financial investments as **other risks**. **Risks arising from the real estate portfolio** reflect potential losses resulting from market fluctuations of our real estate portfolio. **Risks arising from our shareholdings/financial investments** are potential losses resulting from fluctuations in the prices of our listed and non-listed shareholdings, financial investments and corresponding fund shares.

Integrated overall bank management

Background

The ICAAP requirements are derived from the Minimum Requirements for Risk Management (MaRisk) and are being constantly refined. By the end of the reporting period, HVB had largely implemented the expanded regulatory requirements for an integrated overall bank management process that were published in December 2010 as part of the third amendment to the MaRisk rules. Implementation was completed during January 2013 with the approval of the strategies for the 2013 financial year.

The consultation for the fourth amendment to the MaRisk rules commenced at the start of 2012, with the final version published on 14 December 2012. The impact of the new features and additions on methods and processes was already analysed during their drafting. This made it possible to implement large parts of the rules before the end of 2012. Among other things, the approach used to limit and monitor risk and related concentrations of risk was refined. Risk tolerances for 2013 were derived from the risk-bearing capacity and approved by the Management Board in January 2013. The analysis of the information content of the risk measurement methods was extended to cover the whole ICAAP. Responsibilities and implementation plans were defined for the remaining requirements, such as the implementation of a process for planning the future capital requirement over a period of several years.

Risk management

HVB's risk management programme is now built around the business strategy adopted by the Management Board, the Bank's risk appetite and the corresponding risk strategies. Implementation of the risk strategies is a task for the Bank as a whole, with key support from the Chief Risk Officer (CRO) organisation.

The Bank's risk-bearing capacity upon achievement of the set targets is assessed in advance using the available financial resources on the basis of the risk strategies and the business and risk plans. At the same time, limits are defined in the planning process to ensure that the risk-bearing capacity is guaranteed.

The divisions are responsible for performing risk management working closely with the CRO within the framework of competencies defined by the Management Board of HVB.

Functional separation

In addition to Bank-wide risk management, integrated overall bank management is accompanied by comprehensive risk monitoring, which is functionally and organisationally independent.

Risk controlling

Risk controlling is defined as the operational implementation of the overall risk strategy and the divisional risk strategies. The Senior Risk Management (SRM) unit is responsible for managing default risk for the CIB and Private Banking (PB) divisions and the Credit RR F&SME Germany (KRI) unit in the F&SME division. The senior risk managers and the credit specialists (KRI) take the lending decisions for exposures. Thus they make it possible for the front office units to take on risk positions in a deliberate and controlled manner within the framework of the risk strategies and evaluate whether it is profitable to do so from the overall perspective of the customer relationship and on the basis of risk-return considerations. The Trading Risk Management unit is responsible for controlling market risk, while the operational risk managers in the individual divisions are responsible for controlling operational risk. Controlling of the financial investments is in the hands of the divisions to which they are assigned in each case and the Asset Liability Management unit in the Chief Financial Officer (CFO) organisation is responsible for controlling liquidity risk. Real estate risk is controlled by the Real Estate Management UniCredit Bank (GRE) and Real Estate Management UGBS (IME) units.

Risk monitoring

The central risk monitoring function within the CRO organisation is responsible for identifying, measuring and evaluating the risks at HVB. It is subdivided in accordance with risk types. The risk control functions for the following risk types are grouped together in the Market Risk unit: market risk, operational risk, reputational risk and liquidity risk. The Credit Risk Control & Economic Capital (CEC) unit monitors credit risk, business risk, real estate risk and investment risk and consolidates all quantifiable risk types, with the exception of liquidity risk, for the determination of the economic capital requirement.

Parallel to these activities, the available financial resources are defined, quantified and compared with the risk capital for the analysis of the risk-bearing capacity. A qualitative approach is used to monitor and manage risks that cannot be quantified.

Divisions and committees

Chief Risk Officer

The control and cross-divisional management of risk at HVB fall within the competence of the CRO. This is where all the key functions involved in the identification, analysis, assessment and reporting of risk are performed together with the ongoing tracking, handling, monitoring and controlling of risk. These activities are supported and complemented by various CFO units, notably with regard to liquidity risk.

Risk Report (Continued)

The CRO organisation is divided into units that deal with lending business in the back office. The main functions of these units include:
– operational functions in the credit-decision and monitoring processes for the risk-relevant lending business, complete with monitoring of the issuer and counterparty limits
– data management for the restructuring and workout portfolio
– restructuring activities with a view to minimising potential losses for the Bank
– the resolution of all loans for which the measures taken in the restructuring phase were not successful

At the same time, there are units that cover operational and strategic aspects of risk monitoring. Their main functions include:
– the development, enhancement, validation, parameterisation and calibration of the rating models used to determine the probability of our customer defaulting
– the development of concepts used to identify and control credit risk and concentrations, including country risk
– responsibility for and refinement of the measurement methods and systems for market risk, reputational risk and operational risk, and their measurement
– the implementation of a homogeneous stress culture in HVB together with UniCredit and exchange with the HVB Group companies
– the determination of the internal capital and the economic capital base
– ensuring ICAAP compliance and compliance with the MaRisk rules as part of the responsibility for credit default risk and economic capital
– ensuring compliance with regulatory rules regarding internal and external reports
– risk reporting

Chief Financial Officer
The Finance and Regional Planning & Controlling units from the CFO organisation play a major role in risk monitoring. These units notably cover the management of short- and long-term liquidity at HVB (Asset Liability Management) acting in concert with the front office units and Asset Liability Management. They have also been tasked with central business management, cost controlling and equity capital management. The CFO units are responsible for the preparation of income budgets and income projections. They also prepare and validate the segment report in accordance with IFRS that is published externally. Furthermore, the division-related controlling departments for the operating divisions CIB, F&SME and PB are included here.

Asset Liability Management
The Finance department controls Asset Liability Management by managing short-term and long-term liquidity within HVB. Its main objectives are to ensure that the Bank has adequate liquidity at all times and to optimise funding costs. Asset Liability Management monitors trends and happenings on the money and capital markets, and liquidity and refinancing requirements. As part of liquidity risk management, for instance, it defines underlying conditions, limits and processes, specifies responsibilities and oversees funding activities together with the front office units. The internal cost of funds for the lending and deposit-taking business is continually reviewed for appropriateness and regularly adjusted to reflect the market situation. The measures implemented in connection with these functions serve to support HVB's return targets.

Risk Committee
Strategic issues are discussed and decided on by the Risk Committee (RC) in its function as a management and decision-making body with responsibility for all areas. The role of the RC has no effect on the final decision-making authority of the Management Board on matters that cannot be delegated and on those related to the MaRisk.

During its monthly meetings, the RC deals with risk type-specific topics, the HVB risk strategies, credit portfolio reviews and measures, the definition of the risk tolerance, risk classification procedures, principles of the credit organisation and risk-related aspects of process and handling standards in the lending business.

Asset Liability Committee
The Asset Liability Committee (ALCO) makes decisions at its monthly meetings on the asset/liability management of HVB. The committee pursues the following key goals:
– establishment of uniform asset/liability management methods for HVB
– optimum utilisation of liquidity and capital resources
– coordination between the requirements of the divisions for financial resources and the business strategy

Stress Testing Council
To provide management with additional analysis for bank management purposes, HVB has significantly improved the quarterly process for carrying out stress tests since 2011. For this purpose, the Management Board, as the body responsible for bank management,

delegated stress testing to the RC and the Stress Testing Council (STC) as a specialist committee. The tasks of the STC include:
- coordination of all stress testing activities within HVB, including the development of the stress testing methodology
- definition and coordination of stress scenarios encompassing all risk types, including the validation of the underlying parameters
- analysis and presentation of stress testing results and their use to prepare recommendations for management

Reputational Risk Council
The Reputational Risk Council (RRC) takes decisions regarding potential reputational risk resulting essentially from business transactions. Starting in 2013, further potentially risk-bearing activities and transactions undertaken by the Bank will be submitted to the RRC for decisions, notably arising from:
- projects and outsourcing activities
- the development of new products and the exploitation of new markets
- the creation of special purpose vehicles (SPVs) and related transactions

The Management Board will be involved in critical instances. The planned Reputational Crisis Council will deal with reputation events that have already occurred.

Loan Loss Provision Committee
The Loan Loss Provision Committee (LLPC) is kept informed about the latest developments in the watchlist and the restructuring/workout portfolio of HVB. It takes decisions within HVB regarding:
- all allowances in excess of €5 million
- all impairment losses in excess of a competence value of €100 million

Implementation of overall bank management

System of strategies
The system of strategies at HVB Group relates to HVB and its subsidiaries and essentially comprises the business strategy and the risk strategy of HVB Group, with the business strategy forming the foundation. The risk strategies encompass the relevant risk types, the risk strategies of the divisions CIB, F&SME and PB, the Industry Credit Risk Strategy and the risk strategies of the relevant subsidiaries.

The HVB business strategy includes definitions of the business model and the conceptional framework for the strategy and its cornerstones for both the Bank as a whole and the individual divisions.

The HVB risk strategy is derived consistently from the business strategy, supplementing it with the relevant aspects of risk management. The risk strategy focuses on considering the relevant risk types of credit and market risk together with their controlling using the economic capital and limits, as well as operational risk, investment, real estate and business risk, which are only controlled using the economic capital. In addition, the strategic objectives for reputational risk, strategic risk and outsourcing are also defined in quality terms.

In particular, the section on credit default risk is supplemented by the Industry Credit Risk Strategy, which defines the direction of risk policy within the various industries. Also supplementing the risk strategy are the risk strategies of the operating divisions CIB, F&SME and PB, which makes the risk strategy more specific with relevant content within the individual divisional environment.

The strategies approved by the Management Board are reviewed on both an ad hoc and a regular basis and, where necessary, modified.

2012 strategy
The modification to the business strategy in the CIB division that was approved at the end of 2011 and implemented in 2012 was based on the assumption that the financial markets would continue to be affected by the as-yet unresolved sovereign debt crisis, possibly leading to negative consequences for the real economy.

The core elements of the strategy remain in place. These include:
- a focus on customer-related activities with low charges to risk-weighted assets (RWA)
- a focus on the core market
- the definition of a non-core portfolio, which is intended to release around €25 billion from risk-weighted assets to be invested in expanding customer-related activities by cutting back other business

The ring-fenced portfolios were reduced in line with the strategy. These include:
- ship and aircraft loans
- project loans in Asia and the Americas
- renewable energy in the CIB division

Risk Report (Continued)

– the leveraged buyout portfolio
– risk concentrations with individual borrowers

The concentration risk in the leveraged buyout portfolio and the automotive industry were successfully reduced, benefiting greatly from the greatly improved receptiveness of the debt and equity markets. The better than expected operating performance of the companies also played a major role here. The Bank aims to continue reducing its concentration risk.

Outside of the focus portfolios listed above, the risk structure of the corporates portfolio developed healthily, as the “profitability before growth” strategy was implemented systematically.

The Bank’s risk result is determined to a large part by the structural weakness of the shipping finance market and ring-fenced project loans in Asia and the Americas. On the other hand, the risk development in the strategic, customer-related portfolio was pleasing.

Overall bank management at Group level

The metrics relevant for the overall bank management of HVB are derived from the business strategy in the annual budgeting process. Earnings, risk, liquidity and capital targets are defined in the budgeting process together with the targeted risk-bearing capacity at overall Bank level. The limits for the internal capital are defined and monitored in order to ensure the Bank’s risk-bearing capacity. For the purposes of divisional controlling, the economic capital limits are distributed for each risk type to ensure that the planned economic risk remains within the framework defined by the Management Board.

Furthermore, the economic yield expectations have been calculated since 2010 using the allocated capital principle that UniCredit introduced across its entire organisation. Within the scope of this principle, it is ensured that at least the expected return on the basis of the regulatory capital requirement is met. This means that regulatory (or used core) capital is allocated to the divisions that is expected to yield an appropriate return, which is derived from the expectations of the capital market and which has to be earned by our business units.

In the planning process for 2013, the internal capital is used to calculate the allocated capital for all divisions and for HVB Group as a whole in accordance with the principle of dual control.

In line with the parameters defined in the business strategy and the risk strategy, the defined targets are broken down to division level and then translated into operational metrics for sales management. The defined targets are monitored using a standardised monthly report to the Management Board of HVB. The Management Board of HVB initiates counter-measures in response to deviations from the targets defined in the budgeting process.

Regulatory capital adequacy

Used core capital

For the purposes of planning and monitoring risk-weighted assets in accordance with the Basel rules, and in order to meet the stricter European regulatory requirements for systemically important financial institutions or groups of institutions, the divisions are required to have core capital backing for credit, market and operational risk equal to an average of 9% of equivalent risk-weighted assets. Furthermore, the expected return on investment is derived from the average absorbed core capital.

Management of regulatory capital adequacy requirements

To manage our regulatory capital taking account of regulatory requirements, we apply the following three capital ratios, which are managed within the framework of HVB’s risk appetite rules using internal targets, triggers and limit levels:
– Tier 1 ratio (ratio of core capital to risk-weighted assets arising from credit risk positions and equivalent risk-weighted assets from market and operational risk positions)
– Core Tier 1 ratio (ratio of core capital, excluding hybrid capital instruments, to the sum of risk-weighted assets arising from credit risk positions and the equivalent risk-weighted assets from market and operational risk positions)
– Equity funds ratio (ratio of equity funds to the sum of risk-weighted assets arising from credit risk positions and the equivalent risk-weighted assets arising from market and operational risk positions)

More detailed information on these ratios is provided in the section "Risk-weighted assets, key capital ratios and liquidity of HVB" in the Financial Review in the present Annual Report.

To determine the appropriate capital funding, we have essentially defined the following process: based on our (multi-year) annual plan, we prepare a monthly, rolling eight-quarter projection for ongoing forecasting of our capital ratios in accordance with the German Banking Act (Kreditwesengesetz – KWG).

HVB and UniCredit S.p.A. agreed with the relevant regulators beyond the statutory minimum requirements that HVB would not fall below an equity funds ratio of 13%. This agreement remains in force until the measures required to remedy findings from earlier audits of annual financial statements and regulatory requirements regarding statutory and regulatory requirements in Germany have been implemented. The equity funds ratio of HVB was 19.5% at the end of December 2012 (2011: 18.4%).

The measures listed have been successfully advanced since 2010 as part of a Bank-wide project carried out with top priority to a strict methodology and adequately resourced. Their main contents reflect the breadth of the constantly increasing regulatory requirements for the structure of the risk management system and the internal control system. Building on the progress made in the previous year, the targeted goals were achieved in 2012 by successfully completing several complex implementation projects. The targeted improvements are reviewed constantly in everyday operations and refined in order to ensure that the requirements are permanently met.

Economic capital adequacy

HVB determines its internal capital on a quarterly basis. The internal capital is the sum total of the economic capital of all quantified risk types with the exception of liquidity risk. A confidence level of 99.97% and a holding period of one year are assumed consistently in the calculation for all risk types.

When the economic capital is determined, risk-reducing portfolio effects are taken into account and parameters and correlations applied that include economic downturns.

An all-round overview of the risk situation of HVB as part of HVB Group is obtained by regularly assessing the Bank's risk-bearing capacity, as shown in the following table.

Internal capital after portfolio effects (confidence level 99.97%)

	2012		2011	
Broken down by risk type	**€ millions**	**in %**	**€ millions**	**in %**
Market risk	1,939	17.0	1,133	11.1
Credit risk	6,774	59.4	4,362	42.9
Business risk	319	2.8	570	5.6
Operational risk	1,669	14.6	1,084	10.7
Risks arising from our own real estate portfolio	33	0.3	21	0.2
Risks arising from our shareholdings/financial investments	674	5.9	428	4.2
Aggregated economic capital	**11,408**	**100.0**	**7,598**	**74.7**
Cushion	—	—	2,576	25.3
Internal capital of HVB	**11,408**	**100.0**	**10,174**	**100.0**

Risk Report (Continued)

Aggregated economic capital[1] after portfolio effects (confidence level 99.97%)

	2012		2011	
Broken down by segment	**€ millions**	**in %**	**€ millions**	**in %**
Corporate & Investment Banking	8,466	74.2	5,826	76.7
Family & SME	1,646	14.4	854	11.2
Private Banking	149	1.3	121	1.6
Other/consolidation	1,147	10.1	797	10.5
Aggregated economic capital of HVB	**11,408**	**100.0**	**7,598**	**100.0**

1 aggregate of economic capital of the individual risk types

The internal capital increased by a total of €1.2 billion. The individual changes are listed in the sections regarding the respective risk types. The changes in methods in the individual risk types together with the correlation matrix for risk aggregation modified and updated to reflect the MaRisk rules obviated the need for the previously included cushion employed to cover cyclical fluctuations, possible model risks and specific risks (year-end 2011: €2.6 billion). This has no longer been applicable since the start of 2012 accordingly.

Risk appetite
HVB Group's risk appetite is defined as part of the annual strategy and planning process. The risk appetite ratios comprise ratios for capital adequacy and for profitability as a proportion of risk and liquidity. Thresholds and limits are defined for these ratios that allow risk to be identified and counter-measures initiated at an early stage. The matter is escalated to the appropriate committees and the Management Board, should the defined limits be exceeded.

Gone concern/going concern
HVB normally controls its risk-bearing capacity under a gone-concern approach. In other words, the risk-bearing capacity spotlights HVB's ability to settle its liabilities. At the same time, appropriate figures are also defined for the regulatory core capital backing alongside targets, triggers and limits for the risk-bearing capacity.

The going-concern concept is additionally allowed for by critically evaluating and incorporating as appropriate the results of the regular Bank-wide stress tests when defining targets, triggers and limits for both the risk-bearing capacity and the regulatory core capital backing.

Risk-bearing capacity
In a quarterly analysis of our risk-bearing capacity, we measure our internal capital against the available financial resources. Furthermore, a monthly update has been carried out since August 2012 for the two biggest risk types – credit risk and market risk – and a monthly analysis of the available financial resources for the purpose of systematically monitoring the risk-bearing capacity. Moreover, the risk-bearing capacity is analysed as part of our planning process with an appropriate internally defined forecast period of one year.

Effective 31 December 2011, HVB introduced an updated internal definition for the measurement of the available financial resources, based on a consistent liquidation approach (gone-concern). Under this approach, the risk-bearing capacity is defined by comparing maximum potential losses (internal capital) with the ability to absorb losses using the available equity (available financial resources). When determining the available financial resources, the available economic capital is considered. In other words, the calculation is made in accordance with a value-oriented derivation, under which shareholders' equity is adjusted for fair value adjustments. Furthermore, intangible assets, deferred tax assets and effects arising from the own credit spread are deducted and minority interests are only taken into account to the extent of the risk-bearing portion. At the same time, subordinated liabilities recognised as shareholders' equity for banking supervisory purposes are included. The available financial resources at HVB Group totalled €21.0 billion at 31 December 2012 (31 December 2011: €22.7 billion).

With internal capital of €13.9 billion, the risk-bearing ability is approximately 151% (year-end 2011 before changes of method: 172%). We see this as a comfortable value. The decline of 22 percentage points for HVB Group compared with 31 December 2011 can be attributed to the increase of €0.8 billion or 6% in internal capital of HVB Group together with the reduction of €1.7 billion or 7% in the available financial resources in 2012. The reduction in the available financial resources results from different and, in some cases, contrary developments in individual components, notably including the much higher dividend payment for 2012, the expiry of limited-term subordinated capital instruments and the buy-back of hybrid capital instruments. These developments are only partially offset by the decline in undisclosed charges.

Limit concept
HVB's limit concept consists of limits for internal capital, limits for specific risk types and limits for concentration risk. This limit system is based on the risk strategy and the risk appetite and ensures compliance with the risk-bearing capacity. The risk limits are approved annually by the Management Board of HVB as part of the strategy process.

The internal capital at HVB is limited and managed by setting limits for the divisions. The following risk types are included in the division limits:
– Credit risk
– Market risk
– Operational risk
– Business risk
– Real estate risk
– Investment risk

In order to identify possible limit overshoots at an early stage, HVB has specified thresholds in the form of early warning indicators as well as the defined limits. The utilisation and hence compliance with the limits is monitored regularly and presented in the Bank's reports on a quarterly basis.

A refinement of the limit system for internal capital is being implemented as part of the strategy process for 2013. This involves distributing the limits to the divisions of HVB by risk type, where they are used for controlling purposes.

Stress tests
The MaRisk rules call for stress tests to be carried out regularly using various scenarios. These stress tests were refined by HVB in 2012 as a major component of the risk management toolbox. Besides modifying the models for various risk types, the process and the stress test documents were further standardised as well. The stress test scenarios are now prepared uniformly by UniCredit Research in standard formats, for example, serving as the starting point for all risk types.

Various macroeconomic downturn scenarios and a historic scenario were calculated for the cross-risk-type stress tests in 2012.

Concentrations of risk and earnings
Concentrations are accumulations of risk positions that react similarly to specific developments or events. Concentrations may have an impact within a risk type or equally across risk types. Concentrations indicate increased potential losses resulting from an imbalance of risk positions held in customers and products or specific industries and countries.

Concentrations are analysed, managed, controlled and reported on a regular basis with regard to the relevant risk drivers for credit, market, liquidity and operational risk. In particular, appropriate instruments and processes ensure the prompt identification of concentrations.

Risk Report (Continued)

In the interest of integrated, comprehensive risk management, concentrations of risk and earnings are measured and controlled at HVB Group level.

In 2013, the risk management processes for concentrations will be optimised with regard to the connection of risk drivers across the risk types, such that concentration risk is integrated into the assessment and controlling.

The concentration of earnings in divisions, products or regions represents a business-strategy risk for the Bank. Starting in 2013, risk arising from concentrations of earnings will be identified regularly by the Bank's internal reporting, as its avoidance is an important indicator of sustainable diversification and hence the viability of the business model in crisis situations.

Risk inventory
The existing annual risk self-assessment for HVB was revised and expanded in 2012. The newly drafted process for the risk inventory was tested and refined during a pilot project within HVB and selected subsidiaries.

As of 2013, a comprehensive risk inventory will be implemented at HVB Group to examine and scrutinize both present and potential new risks by means of structured interviews with numerous managers at the Bank, among other things. The results will be presented to the RC and included in the calculation and planning of the internal capital following approval.

Internal reporting system
The internal reporting system supports risk monitoring at portfolio level in particular. This involves providing information about the overall risk to the Management Board on a monthly basis and to the Audit Committee of the Supervisory Board at least on a quarterly basis and also ad hoc. In addition, further monthly risk reports are created focusing on specific divisions, products or industries, to be communicated to the RC and the units involved with risk management, among others.

Risk types in detail

1 Credit risk

Definition
Credit risk is defined as potential losses arising from a customer default or a downgraded credit rating. We distinguish between the risk categories credit default risk, counterparty risk, issuer risk and country risk, for which the credit risk strategy provides the guidelines.

Categories
Credit default risk
Credit default risk is defined as the potential losses arising from commercial lending operations. It is taken into account by recognising allowances for losses on loans and advances in the balance sheet whenever specific indicators of a default have arisen (incurred loss). More details on net write-downs of loans and provisions for guarantees and commitments can be found in Note 4 in this Annual Report. The abstract expectation that customers could default in the future (the concept of expected loss and credit value-at-risk) must be seen separately from this.

Counterparty risk
Counterparty risk is defined as the potential losses arising from the default or downgraded credit ratings of counterparties with whom we have engaged in derivative transactions involving interest rates, foreign exchange, equities/indices, or other futures or derivative transactions. Counterparty risk can be broken down into settlement risk, replacement risk and cash risk. For the Bank, there is a settlement risk whenever payments are exchanged and, when processing the transaction, we make advance payments without being certain at the time of payment that the counterparty will make the corresponding payment. Replacement risk is defined as the risk that the Bank must replace a transaction under less favourable market conditions following a default by the counterparty. Cash risk consists of the risk that the counterparty will not repay loans (taken out in cash). In the case of treasury products, cash risk is relevant in money trading.

Issuer risk
Issuer risk reflects the risk of an issuer defaulting or suffering a downgraded credit rating. It relates notably to the purchase of securities for own account, securities issuance and placement transactions, and credit derivatives.

Country risk
The classical country risk perspective is defined as the risk of losses arising from transfer/conversion restrictions, the risk of governments and central banks defaulting (sovereign risk) and default through state interference in the delivery contract (delivery risk). It encompasses transactions that represent cross-border business from the standpoint of the office disbursing the loan and are denominated in a foreign currency from the customer's standpoint.

Country risk in the narrow sense relates exclusively to the classical country risk perspective mentioned above. Distinct from this is the concentration risk perspective for the countries of the eurozone, which we introduced in 2012 in order to reflect what from our point of view is the continued lack of forecasting certainty in the eurozone. We show the development of exposure in eurozone countries broken down by risk type in detail under "Quantification and specification" below. At the start of 2013, the Bank introduced regional and/or country-specific concentration limits for all countries outside of the eurozone.

Strategy
A risk strategy has been approved for HVB that operationalises the strategic controlling of credit risk. This is done by setting targets and limits for different metrics as needed. Controlling using economic capital together with volume and risk metrics is particularly important in this regard. The planning of the targets and limits is embedded in the Bank's annual plan, similarly taking into account ceilings arising from the requirements regarding the capital base. The limits are intended to leave some leeway for implementing the business plan while they also set ceilings, notably with regard to the economic capital.

Systematic controlling and setting of limits for credit risk are essential for sustaining the Bank's strategic orientation. The risk strategies are intended to make it possible for both the sales controlling and risk management functions to back transactions with concrete, measurable and hence applicable criteria in order to optimise the risk profile of the credit portfolio. To achieve this, the expected and unexpected losses of a given borrower are determined. These form the basis for drawing up limits and in some cases target portfolios for the different risk types, exposures and risk metrics.

The macroeconomic scenario underlying the strategy process in 2012 materialized in a weakened form, with the impact in the most important core market of Germany being more moderate than in the rest of Europe.

HVB's successful strategy in recent years of strictly limiting risk and managing the Bank in a risk-conscious manner was continued again in 2012. By selectively writing new business, employing active portfolio management and expanding its professional restructuring and workout capacity, HVB has evolved into a bank that has a lower than average risk profile for the industry. The goal was to continue this trend and stabilise the overall portfolio at a sustainable level.

Industry-specific controlling of credit risk had a positive effect, leading to a deliberate reduction of the portfolio in defined industries. The details of industry-specific controlling are specified in the Industry Credit Risk Strategy. This strategy includes an assessment of the opportunities and risks for every industry, from which controlling signals and quantitative ceilings for new business are derived.

Active management of the exposure in the countries badly affected by the eurozone crisis also contributed to the positive development described above. The strategy of HVB in its role as a universal bank was to concentrate on strong regional core markets like Switzerland, the UK, Belgium and France that have been less badly hit by the crisis alongside the domestic market of Germany. The markets in Spain, the Netherlands and Scandinavia are being transferred to the responsibility of a different UniCredit bank. Apart from key multinational customers which will continue to be served by HVB, the portfolio will be successively reduced. At the same time, the Markets unit in the CIB division will enter into credit risk and market risk subject to clearly defined standards in UniCredit's core countries as a result of the corporate function as UniCredit's investment bank.

Limit system
The following types of risk are included in the credit risk limit system of HVB:
- credit default risk
- counterparty risk
- issuer risk in the banking book and partially also the trading book
- country risk

Risk Report (Continued)

The credit risk strategy defines limits for risk metrics and risk types for individual portfolios. These are allocated at the following level:
– HVB Group
– HVB
– divisions of HVB Group and HVB
– products and special portfolios (Leverage, Project, Aircraft Finance (LPAC))

The following criteria are analysed with regard to the performing portfolio: exposure, expected loss and risk density (expected loss as a proportion of the performing exposure). An overshoot is not generally permitted.

In order to avoid concentrations of risk in credit default risk, counterparty risk and, in specific aspects, also issuer risk, the following concentration limits and, where appropriate, target portfolios are used for controlling purposes:
– Single name concentrations
  The references unit for setting limits on single name concentrations are economic or legal borrower groups with an unsecured exposure of more than €50 million.
– Industry concentrations
  The limits are set in the same way as for industry controlling as part of the risk management programme at HVB.
– Concentration limits for eurozone countries
  Exposures in eurozone countries are exposed to the risk of a sovereign default and hence possibly related problems in the financial system. The concentration limit restricts the credit risk of all borrowers in a given country. In addition to the portfolio components listed above, the Shipping portfolio is also excluded from the limit system as the default risk is not correlated with the customer's country of origin in this portfolio. The Shipping portfolio is, however, included in monitoring. Every eurozone country has been assigned a limit that reflects the risk appetite and strategic orientation (expand, reduce or maintain) of HVB.
– Country risk (transfer and conversion risk)
  Volume limits are used to set limits. These are divided into sub-limits at product and maturity level. The limit system is exposed to credit default risk taking account of realisable collateral, counterparty risk and issuer risk in the banking book. The exposure underlying the limit system is the maximum of externally committed credit lines and credit disbursed less realisable collateral and the exposure in the trading positions.

Effective escalation processes have been defined in the event of the limits being exceeded, defining corresponding responsibilities and thus ensuring the permanent controlling effect of the limits.

Reduction
In new lending, the Bank pursues the strategy of applying all types of loan collateral that would present an economic benefit to the Bank in the event of default.

For the reduction of credit default risk, only such collateral is used as meets the requirements of the Basel II Internal Ratings Based (IRB) advanced approach. An essential point in the formulation of collateral agreements and internal processes is ensuring that the collateral is legally enforceable.

Methods have been implemented to value collateral that meet the requirements of Basel II. Empirically determined rates for realisation proceeds and costs are employed in the valuation together with realisation periods. At the same time, special simulation methods for valuing collateral were devised for collateral types with a low default history. In the case of securities, the Bank resorts to its own haircut calculations based on historical data. In addition, collateral is taken into account using a substitution approach if permissible under the German Solvency Regulation.

The most significant collateral types in terms of value are land charges, guarantees and pledges of financial collateral, which together account for approximately 90% of all valued collateral.

Measurement
We use the following risk measurement methods and metrics to assess our credit risk.

Probability of default (PD)
The internal customer-segment-specific rating and scoring methods of HVB that are available for all significant credit portfolios form the basis for the measurement of credit risk. The reliable determination

of our customers' PD is critical for credit decisions, pricing and core capital backing under Basel II as well as for our internal credit risk model. Consequently, we place particular emphasis on the further development and refinement of our internal rating analysis instruments.

The PDs determined on the basis of the rating and scoring methods lead to classification to a rating class in a ten-point scale. The rating classes 1–7 are set aside for performing loans and classes 8–10 for non-performing loans.

Reconciliation of HVB rating classes to external rating agencies

HVB rating class	S&P's rating	Moody's rating	Fitch rating
1+	AAA	Aaa	AAA
1+	AA+	Aa1	AA+
1	AA	Aa2	AA
1–	AA–	Aa3	AA–
2+	A+	A1	A+
2	A	A2	A
2–	A–	A3	A–
3	BBB+	Baa1	BBB+
3–	BBB	Baa2	BBB
4+	BBB–	Baa3	BBB–
4–	BB+	Ba1	BB+
5	BB	Ba2	BB
6+	BB–	Ba3	BB–
6–	B+	B1	B+
7–	B	B2	B
8+	B–	B3	B–
8	CCC+/CCC/CCC–/CC	Caa1/Caa2/Caa3/Ca	CCC+/CCC/CCC–/CC
8–/9/10	C/R/SD/D	C	C/DDD/DD/D

Loss given default (LGD)

The LGD indicates what proportion of the underlying portfolio of receivables would almost certainly be lost in the event of a default. The expected proceeds from the collateral used to reduce credit default risk have a major influence on the amount of the LGD. At the same time, the amount of the LGD is determined by borrower-related criteria. The reliable determination of our customers' LGD is critical for credit decisions, pricing and core capital backing under Basel II (advanced IRB approach) as well as for our internal credit risk model. Consequently, we place particular emphasis on the further development, refinement and annual validation of our LGD estimation methods.

Exposure at default (EaD)

The EaD is the expected amount of the claim at the time of default. It covers current arrears together with the probable future utilisation by the borrower. These probable future utilisations are determined on the basis of historical data and validated on an annual basis. Off-balance-sheet exposures such as unused, externally committed credit lines are employed as the reference point for the EaD parameters. The EaD parameters are also incorporated in the credit decision, pricing, core capital backing under Basel II (advanced IRB approach) and the internal credit risk model.

Risk Report (Continued)

The credit-risk-oriented calculation of exposures and limits was again carried out for issuer risk. This involves calculating a market-value-oriented exposure for the individual positions in the trading book, which shows and limits the maximum potential market value loss without taking account of residual values. A credit-risk-oriented, nominal-value-based exposure is used to limit the banking book and ABS positions. Netting effects are taken into account when the limits are set.

In terms of counterparty risk, the simulation procedure used to determine future exposure values for pre-settlement risk was expanded during 2012. This created the opportunity to simulate potential market values at 50 future dates. The simulation is carried out for each calculated date on the basis of 3,000 market data scenarios. In this context, the simulation of future collateral positions in the event of existing collateral agreements to hedge non-exchange-traded derivatives was introduced. This method forms the foundation for an internal model used to back counterparty risk with core capital.

Expected loss (EL) (standard risk costs)
The expected loss reflects the default losses expected from the current loan portfolio over the next 12 months, taking into account the assigned ratings and collateral on hand. Among other things, it is used for risk identification, as both an absolute and a relative value in pricing, for profitability calculations and for limitation purposes.

Unexpected loss (credit value-at-risk, credit VaR)
The credit VaR provides information about the maximum negative deviation of an actual loss from the expected loss (99.97% probability) within one year. This potential loss provides a figure that makes the risk inherent in the various sub-portfolios transparent. It is also used in pricing and the Bank's profitability calculations. In addition, the credit VaR is backed by economic capital as a safety cushion, taking portfolio effects into account.

Internal credit risk model
A standard credit portfolio model is used within UniCredit to measure credit risk, by means of which the default-related credit default risk, counterparty risk and issuer risk in the banking book of HVB is quantified and assessed. The model reflects the specific characteristics of the HVB portfolio and is validated by HVB independently of UniCredit. At present, the portfolio model determines the unexpected loss should a borrower default. In addition, the risk arising from value fluctuations on account of rating changes (migration risk) is determined using the maturity-dependent, regulatory premium factors in accordance with Basel II. The implementation of an optimised approach to migration risk modelling was drawn up and realised by year-end 2012. Country risk is integrated using appropriate PD premiums. The credit portfolio model follows a net asset value approach, based on a granular multi-factor model that adequately reflects the specific portfolio structure of HVB. The parameters PD, LGD and EAD are used as inputs.

Risk measurement from the country risk perspective
Country risk measurement takes account of credit default risk complete with risk arising from realisable collateral, counterparty and issuer risk in the banking book and the trading book. This is shown as a total for each country and also aggregated across regions. The following types of receivable are excluded from country risk considerations:
– claims against supranational organisations not tied to a specific country
– receivables for which no specific allowances have been set up
– the assumption of risk in the HVB for business brokered by UniCredit Luxembourg S.A.
– settlement risk
– any exchange-traded financial instruments (with regard to counterparty risk)
– investments
– lending business of HVB's international branches

The exposure used for measurement is the maximum of externally committed credit lines and credit disbursed less realisable collateral and the exposure of the trading positions (jump to default). The exposures are aggregated for each risk country.

Risk-based and market-oriented pricing
Pricing methods and tools are used to manage risk and profitability in the lending business that take into account all cost components – in particular the expected standard risk costs and the cost of capital – and that are each adjusted to reflect the current parameters and bank management. Lending decisions are made under risk/return considerations that are determined in the obligatory pre-calculation prior to a transaction being concluded.

Monitoring and controlling

Risk monitoring takes place at the level of individual exposures. In addition, various instruments are used at the portfolio level.

Individual exposures are monitored in both lending and trading operations with the aid of classical monitoring systems, such as rating analysis and early warning systems. Individual exposure limits serve to limit the risks assumed.

In order to avoid cluster risk, HVB defines limits for concentrations of credit risk on the basis of borrower groups in line with the probability of default. Monitoring and reporting of any limit overshoots takes place on a monthly basis.

Special features of counterparty risk and issuer risk

We employ limit systems as a key element of our risk management and control of counterparty risk and issuer risk to prevent an increase of our risk position that does not comply with the strategy. These systems are available online at all key HVB facilities engaged in trading activities. Each new trade is immediately entered and applied to the corresponding limit within an appropriate timeframe. For counterparty risk, this applies to both replacement risk and settlement risk. For the latter, the risk for the future value date is limited and monitored right from the time the Bank enters into the transaction so that a concentration of payments on a single value date is prevented beforehand. Good system availability ensures that each trader has a tool on hand to check limit utilisation and lets the risk controller perform prompt limit monitoring for each counterparty or issuer. To reduce counterparty risk relating to financial institutions, HVB is making greater use of derivative exchanges in its function as a central counterparty.

Special features of country risk

Country risk is monitored and controlled on the basis of the measurement methods and exceptions described above, with the aid of volume limits for each country. In taking this approach, we are striving to limit country risk while implementing risk-oriented portfolio management and flexible exposure management based on transaction potential. In the event of a limit overshoot, the risk management function decides upon measures to be taken for instance to reduce the portfolio or shift limits.

Quantification and specification

Credit default, counterparty and issuer risk

The economic capital for credit risk at HVB without taking account of diversification effects between the risk types amounts to €7.0 billion, which is €2.4 billion higher than the total at 31 December 2011 (€4.6 billion). Among other things, the increase results from the fact that the economic capital at 31 December 2012 mentioned above includes migration risk for the first time on account of the expansion of the portfolio model methodology.

The following tables and charts for credit default risk and counterparty risk in the Bank as a whole and issuer risk in the banking book show the aggregate exposure values excluding the remaining exposures assigned to the former Real Estate Restructuring segment. These are excluded from the analysis because the portfolio, which has already been reduced considerably in recent years to €1.1 billion (2011: €1.6 billion), is earmarked for elimination without any new business being written. The aggregate credit default, counterparty and issuer exposure is called credit default risk exposure or simply exposure below. Issuer risk arising from the trading book is included in the market risk analysis by way of the incremental risk charge. The comments in this regard can be found in the section covering market risk.

Breakdown of expected loss and credit value-at-risk by segment (€ millions)

	EXPECTED LOSS		CREDIT VALUE-AT-RISK	
Breakdown by segment	**2012**	**2011**	**2012**	**2011**
Corporate & Investment Banking	373	430	5,311	3,638
Family & SME	118	164	980	520
Private Banking	6	8	71	20
Other/consolidation	17	36	633	565
HVB	**514**	**638**	**6,995**	**4,743**

Risk Report (Continued)

A reduction in the expected loss is evident at HVB during 2012. This development is attributable to a general improvement in the probabilities of default and a healthier risk structure overall, as can be seen in the table entitled "Breakdown of credit default risk exposure by rating class".

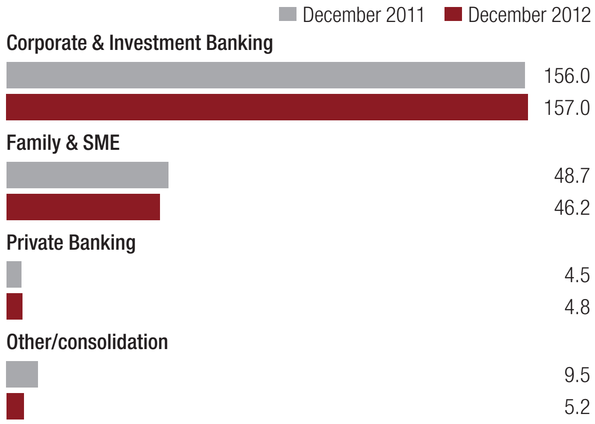
Furthermore, the reduction in the exposure to UniCredit and its subsidiaries (upstream exposures) in the CIB and Other/consolidation segments, the content of which is covered in more detail in the segment report in Note 17 in the Notes to the Financial Statements, led to a reduction in the expected loss.

When the Group Credit Portfolio Model was rolled out in 2012, the correlation matrix was adjusted and premiums for migration risk included. This caused HVB's credit VaR to rise sharply. This is offset by a reduction in the credit VaR due to the decrease in upstream exposure and the associated fall in concentration risk.

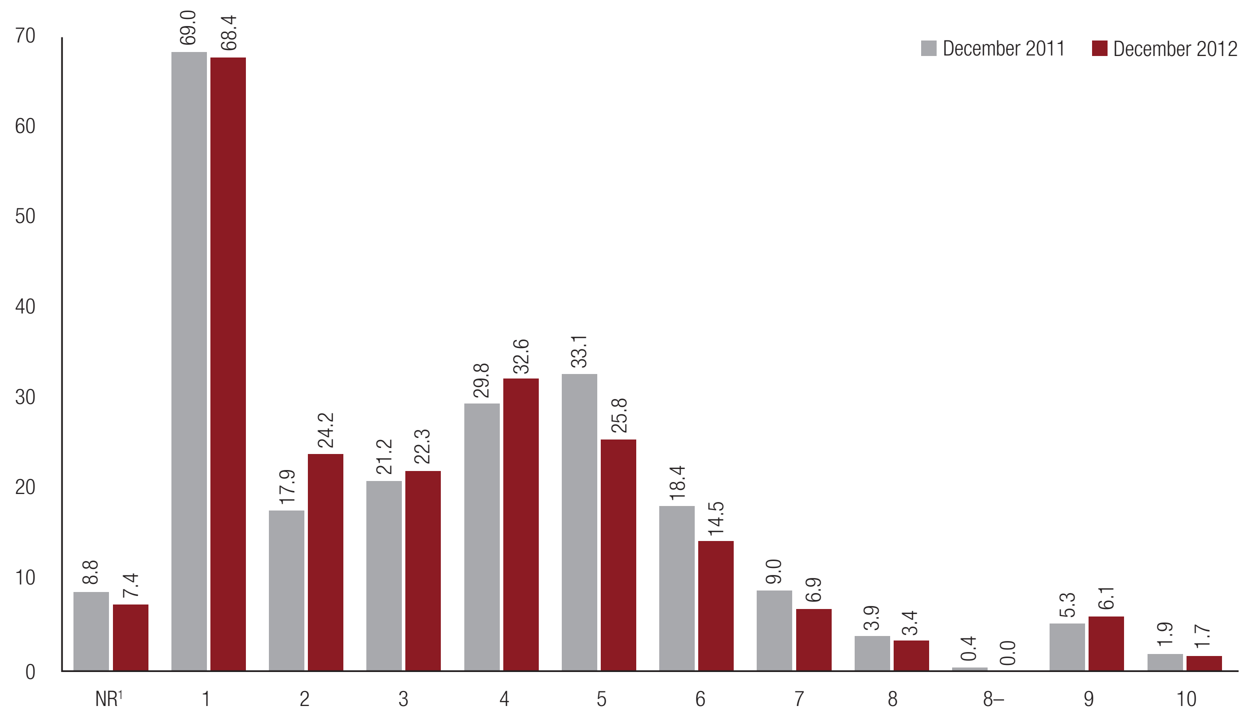
Two contrary developments could be observed in the credit default risk exposures of the CIB division in 2012: HVB's excess liquidity was increasingly placed with Deutsche Bundesbank, while the upstream exposure was considerably reduced. The decline in exposure in the Other/consolidation segment similarly results mainly from the decrease in upstream exposure.

A slight decline in exposure was recorded in the F&SME division as well. This can be attributed primarily to the decline in real estate loans to private individuals. The expansion of new business also only served to slow the decline in the portfolio. The SME portfolio, on the other hand, was kept largely stable.

Breakdown of credit default risk exposure by segment (€ billions)



Breakdown of credit default risk exposure by rating class (€ billions)



1 not rated

As of December 2012, the rating classes are shown broken down into non-rated partners (NR), the rating classes 1 to 7 for performing loans and the rating classes 8 to 10 for non-performing loans, with the rating classes 8–, 9 and 10 representing default classes.

The downgrading of many banks and sovereigns in 2012 is reflected in a migration of exposure from rating class 1 to rating class 2. Furthermore, the effect described above from the placement of excess liquidity with Deutsche Bundesbank and the reduction in upstream exposure also had an impact on rating class 1.

The risk structure improved compared with year-end 2011. With the exposure in rating classes 2 to 4 rising at the same time, the exposure in the rating classes 5 to 8– fell in response to a general improvement in the probabilities of default.

Risk Report (Continued)

Breakdown of credit default risk exposure by industry group (€ billions)

Industry group	2012	2011
Banks, Insurance Companies	53.8	50.6
Public sector	29.7	33.3
Real Estate	23.6	23.2
Energy	11.8	11.7
Chemicals, Pharmaceuticals, Health	9.1	9.1
Machinery, Metals	8.6	9.4
Special Products	8.1	7.7
Shipping	7.9	8.9
Automotive Industry	6.2	7.2
Construction, Wood	5.4	5.2
Services	5.1	5.6
Food, beverages	4.6	4.8
Transport, Travel	4.3	3.8
Consumer goods	3.7	3.7
Telecom, IT	3.1	2.6
Media, Paper	2.4	2.7
Agriculture, Forestry	1.9	2.1
Electronics	1.7	1.6
Tourism	1.6	1.7
Textile Industry	1.5	2.1
Retail	19.1	21.7
HVB	**213.2**	**218.7**

The presentation of industry groups was switched with effect from the reporting date of 31 December 2012 from the classification used in the official statistics to the internal management system and now shows the SRM industries. The prior-year figures have been adjusted accordingly.

The portfolio has a balanced structure without any concentration risk. The Banks, Insurance Companies portfolio is dominated by the liquidity placed with Deutsche Bundesbank.

The following discussion provides an overview of the developments in selected industries and the drivers in each case.

Banks, Insurance Companies

Year-on-year development of selected parameters for the Banks, Insurance Companies sector

	2012	2011	Difference
EaD (€ billions)	53.8	50.6	3.2
EL (€ millions)	47	96	(49)
Average PD (BPS[1])	46	72	(26)
Risk density (RD[2], in BPS)	9	19	(10)

1 BPS = basis points
2 RD = EL/performing exposuree

The risk profile of the portfolio improved significantly during 2012, which can be attributed to the effects detailed below. We will continue to apply our conservative risk strategy going forward.

Concentration risk in the Banks, Insurance Companies portfolio results from the placement of most excess liquidity with Deutsche Bundesbank.

In the past financial year, the banking industry remained very much in the focus of the rating agencies. A global trend for rating downgrades could be observed among financial institutions overall. Consequently, the affected banks are facing ever greater challenges in terms of liquidity and capital procurement.

HVB has deployed a monitoring tool known as the "radar screen for financial institutions/banks" in order to be in a position to promptly identify and counter negative developments within the banking sector. In the event of rating downgrades, measures are taken to reduce the risk arising from bank exposures.

In anticipation of a further deterioration of the credit standing in the Bank portfolio, unused credit lines were considerably reduced and their durations shortened. As a result of HVB's role as centre of competence for markets and investment banking within UniCredit, derivatives account for a large portion of the replacement risk in the portfolio. The rule in this respect is that derivative contracts are generally only concluded on a secured basis. Where this is not legally enforceable, limited durations are applied.

Furthermore, special risk strategies that place large restrictions on new business are applicable for counterparties in the weaker euro-zone countries. Local Greek banks were transferred to restructuring.

At the start of 2012, HVB started placing larger parts of its excess liquidity with Deutsche Bundesbank and only to a limited extent with UniCredit. This contributed to a significant increase in the exposure in the Banks, Insurance Companies industry. The changes in exposure with regard to both UniCredit and Deutsche Bundesbank led to high volatility overall in the bank portfolio during the course of the year.

HVB greatly reduced its upstream exposure (credit risk exposure to UniCredit S.p.A. and other UniCredit companies) again in 2012. At year-end 2012, the upstream exposure still totalled €10.3 billion gross or €7.7 billion net. The reduction during the current financial year of a gross €15.2 billion results mainly from the budgeted reduction of a gross €7.8 billion in the liquidity placed with UniCredit companies together with the conclusion of a standard security annex to the netting master agreement for OTC derivative transactions (Credit Support Annex) with UniCredit S.p.A. and other companies.

€6.8 billion of the gross upstream exposure (before collateral) results from the strategic orientation of HVB as UniCredit's investment bank and other business activities (such as export finance and guarantees).

A gross upstream exposure of €3.5 billion is true upstream exposure that results from the fact that HVB placed excess liquidity with UniCredit companies within the upstream group. To cover this exposure, UniCredit S.p.A. has provided asset-backed securities and bonds issued by banks, industrial enterprises and communal issuers with a total value of €2.5 billion to HVB as collateral. This means that the net total of this exposure after collateral at year-end 2012 totalled €1.0 billion.

Real Estate

Year-on-year development of selected parameters in the Real Estate sector

	2012	2011	Difference
EaD (€ billions)	23.6	23.2	0.4
EL (€ millions)	37	47	(10)
Average PD (BPS[1])	165	202	(37)
Risk density (RD[2], in BPS)	16	21	(5)

1 BPS = basis points
2 RD = EL/performing exposure

No concentrations of risk exist with regard to the security provided and the conservative lending standards that have been applied for years.

The real estate market in Germany proved extremely robust in 2012 thanks to historically low long-term interest rates coupled with a stable labour market and persistently strong demand for residential property, especially in major conurbations. The change in investment patterns seen during the financial crisis led to large shifts of assets into real estate.

Notably in residential property, there are signs of overheating in the core markets (among others Berlin, Munich and Hamburg). Since demand has outpaced new construction for years, there will be no excess supply for the foreseeable future and selling prices will rise. The pressure on rents will increase later.

In accordance with the risk strategy for 2012, HVB aimed for growth in the portfolio of residential properties. At the same time, loans for office space together with industry and production facilities were reduced. These moves systematically implemented the targeted shift in emphasis from commercial to residential, non-cyclical real estate. In this context, we have focused exclusively on Germany and, in Germany, on our core markets. Risk-limiting parameters continued to be implemented at the same time by tightening the lending terms, increasing the equity requirements and raising standards regarding the quality of the individual properties involved. Partly as a result of the conservative, forward-looking risk strategy for the Real Estate industry that has been applied for years, the portfolio of existing properties in Germany was robust and again low risk in 2012.

Risk Report (Continued)

In keeping a very close and consistent eye on the German sub-markets, we do not expect the market to collapse in the foreseeable future. We want to grow (in quality terms) overall, but with very conservative lending parameters, high quality requirements for individual properties and exclusively in the German core markets.

Energy

The Energy portfolio is a growth driver for the Bank.

Year-on-year development of selected parameters in the Energy sector

	2012	2011	Difference
EaD (€ billions)	11.8	11.7	0.1
EL without extraordinary factor (€ millions)	35	38	(3)
Average PD without extraordinary factor (BPS[1])	103	121	(18)
Risk density (RD[2], in BPS)	31	33	(2)

1 BPS = basis points
2 RD = EL/performing exposure

This portfolio includes a facility that is discussed in greater detail in the section entitled "Special focus facilities". When this special factor is excluded, the presentation provides a realistic picture of the portfolio's development. This facility represents the only significant concentration of risk in the Energy industry portfolio.

Despite the rapidly changing underlying conditions, we aim to grow in this segment alongside our core customers. The dramatic effects of the legislation enacted with the German Renewable Energy Act (Erneuerbare-Energien-Gesetz – EEG) and intensive price competition made it necessary to focus specifically on producers and equipment providers in the field of renewable energy. Furthermore, the strategy for project finance was modified.

In accordance with the defined industry strategy, we generally focus on short-term business with major international corporations. The exposure to companies that fail to meet our financing conditions is actively reduced or the risk limited by means of structural financing elements. In the case of project loans, we concentrate on projects in countries with a stable regulatory environment and monitor compliance with our financing standards.

The financing of intermediary electricity dealers or brokers (speculative transactions) is normally avoided.

Shipping

Year-on-year development of selected parameters in the Shipping sector

	2012	2011	Difference
EaD (€ billions)	7.9	8.9	(1.0)
EL (€ millions)	107	66	41
Average PD (BPS[1])	565	430	135
Risk density (RD[2], in BPS)	167	84	83

1 BPS = basis points
2 RD = EL/performing exposure

HVB is pursuing a strategy of "reduction along the maturity profile" for its Shipping portfolio that is relatively small compared with the portfolio as a whole. Consequently, we expect the non-performing portfolio (31 December 2012: €1.5 billion) to develop moderately, for which adequate loan-loss provisions have already been set up. This assessment is backed by valuations that have been carried out. The German Federal Financial Supervisory Authority (BaFin) has announced an audit of the shipping portfolios of all German banks. We believe that our processes and valuations will also pass this audit.

The industry remains dogged by overcapacity, which is hindering rapid, lasting recovery in freight rates in many segments. Furthermore, shipping companies are suffering from high fuel prices. Prices on the market for new ships and the secondary market remained under pressure in the second half of 2012 during the course of the ongoing crisis. This is reflected by persistently high risk costs for the Bank. The medium-term goal is to significantly reduce the portfolio. We anticipated this development in our portfolio strategy at an early stage, meaning that this trend came as no surprise to us. We do not expect the market situation to change much over the medium term.

The relatively small decrease in the exposure between December 2011 and December 2012 can be attributed to changes in the exchange rate of the US dollar against the euro. Repayments were partially offset by currency-related rises in US dollar volumes. We assume that the performing portfolio of €6.0 billion at 31 December 2012 will fall by half by 2016 as a result of repayments.

Automotive Industry

Year-on-year development of selected parameters in the Automotive Industry sector

	2012	2011	Difference
EaD (€ billions)	6.2	7.2	(1.0)
EL (€ millions)	22	39	(17)
Average PD (BPS[1])	106	142	(36)
Risk density (RD[2], in BPS)	37	56	(19)

1 BPS = basis points
2 RD = EL/performing exposure

Automotive production and vehicle sales increased again globally in 2012. All of the world's main regions contributed to this development, with the exception of Europe, where the recession has led to lower consumer confidence and in places also a sharp decline in sales. The worst affected by this are those car-makers and suppliers that have a significant proportion of their sales in Europe. By contrast, the three German car-makers grew again in 2012, albeit at a slower pace starting as of summer 2012.

In accordance with our risk strategy, the portfolio of automotive manufacturers and their supplies was not expanded, while a strategy of reduction was continued unchanged for the car dealers that are dependent on the saturated German market.

Utilisation of credit lines fell further in 2012 thanks to the good liquidity situation of the manufacturers and their major suppliers. This was aided by a significant decline in credit default risk exposure with a major industry counterparty, which enabled concentration risk to be reduced.

These factors resulted in the Automotive Industry portfolio declining from €7.2 billion to €6.2 billion.

The difficult market conditions in Europe are forecast to continue in 2013. Since German companies have improved their financial stability greatly since 2010, we expect less risk and lower default rates than in the crisis years of 2008 and 2009 with a possible weakening of demand. The Bank has prepared for this expected market trend by tightening the conditions for new loans to automotive suppliers and defining individual credit ceilings for all customers in this industry.

Special finance facilities

The special finance facilities are included in the credit default risk exposure of the individual industry groups. The specific financing structures are controlled separately in line with the Bank's risk strategy.

Year-on-year development of selected parameters for leveraged buyouts (LBO)

	2012	2011	Difference
EaD (€ billions)	5.3	6.9	(1.6)
EL (€ millions)	42	68	(26)
Risk density (RD[1], in BPS[2])	78	101	(23)

1 RD = EL/performing exposure
2 BPS = basis points

The market for LBOs declined in 2012 compared with the previous year. The portfolio reduction from scheduled and early repayments was only partially offset by new transactions for which we ensure compliance with our standards regarding financing structures and financial ratios. All in all, the portfolio benefited from rating upgrades, especially among major exposures. Concentration risk management was stepped up in 2012 and notable successes were achieved. In accordance with the strategy, no new business was written in Greece, Ireland, Portugal or Spain, and reduction strategies were defined for Spanish transactions.

Year-on-year development of selected parameters for global project finance (GPF)

	2012	2011	Difference
EaD (€ billions)	5.1	5.6	0.5
EL (€ millions)	19	11.4	7.6
Risk density (RD[1], in BPS[2])	37	23	14

1 RD = EL/performing exposure
2 BPS = basis points

In terms of new project loans, we concentrate on projects in the infrastructure sector without traffic risk in economically stable regions in our core markets and on projects in the energy sector with connections to our core market or key customers. The main goals for 2013 are to increase the granularity of the portfolio and enhance the regional portfolio structure.

Risk Report (Continued)

Special focus facilities
Among other things, the HVB portfolio includes exposures relating to the completion of an offshore wind farm. The Bank has undertaken to finance this offshore wind farm located in the North Sea, around 100 kilometres off the German coast. Risk ensued in particular from delays to the completion of the wind farm in both 2010 and 2011. Consequently, HVB restructured its commitment to the general contractor commissioned to deliver the wind farm on a turnkey basis in 2011 by way of a restructuring loan.

The construction work ran largely to plan in 2012 and the erection of the wind farm was and is advancing with a view to completion towards the end of 2013 or start of 2014. Given the dimensions of this unprecedented project for the offshore industry, however, there remains a risk of deviations from plan, driven by the dependence of erection work on the weather as well as technical problems in individual components, some of which were sourced from external suppliers.

Should the ongoing, close monitoring of the project indicate any need to revise the risk assessment, the measures required to ring-fence and limit the risk will be initiated and implemented promptly, and corresponding loan-loss provisions will, if necessary, be set up.

Exposure development of eurozone countries by risk type
The following table shows the exposure of HVB to customers based in eurozone countries (excluding Germany). Borrowers/counterparties based in these countries are included. Compared with the 2011 Risk Report, an aggregate total for issuer risk in the trading book has been added. The of-which position relates to this aggregate total for 2012 accordingly. The tables and charts for credit risk in eurozone countries at 31 December 2012 show consolidated exposures without the remaining exposures assigned to the former Real Estate Restructuring segment and with reference to the country where the risk partner has its registered office.

Exposure development of eurozone countries, broken down by risk type (€ millions)

	LENDING BUSINESS		COUNTERPARTY RISK		ISSUER RISK IN BANKING BOOK		ISSUER RISK IN TRADING BOOK		TOTAL		OF WHICH SOVEREIGN
EaD	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
Belgium	20	139	76	25	35	186	102	48	233	398	9
Estonia	9	9	—	—	—	—	6	—	15	9	—
Finland	111	100	39	25	—	—	101	228	251	353	2
France	2,439	1,712	1,851	653	1,313	1,122	892	2,058	6,495	5,545	1,156
Greece	578	796	102	46	—	31	2	22	682	895	2
Ireland	1,274	2,098	64	654	674	2,395	295	473	2,307	5,620	7
Italy	1,375	2,992	1,730	5,825	4,598	4,859	3,656	6,504	11,359	20,180	3,720
Luxembourg	1,622	1,367	1,430	984	1,988	291	424	602	5,464	3,244	7
Malta	242	358	6	2	—	—	2	1	250	361	—
Netherlands	2,943	3,862	307	319	993	1,094	311	861	4,554	6,136	23
Austria	1,073	1,045	228	282	1,048	3,216	902	719	3,251	5,262	705
Portugal	116	244	64	20	72	111	25	273	277	648	31
Slovakia	67	133	95	57	—	—	45	—	207	190	45
Slovenia	39	49	106	46	—	—	6	8	151	103	6
Spain	1,298	1,756	92	52	1,743	1,372	130	837	3,263	4,017	418
Cyprus	204	208	2	3	—	—	2	—	208	211	—
HVB	**13,410**	**16,868**	**6,192**	**8,993**	**12,464**	**14,677**	**6,901**	**12,634**	**38,967**	**53,172**	**6,131**

The portfolios in the weaker eurozone countries were actively managed in 2012, albeit with different strategies. Differentiated reduction strategies exist for certain countries, including Greece, Portugal and Spain. New business written in the FIBS portfolio (financial institutions, banks and sovereigns) in the weaker countries is actively managed by means of specific product and maturity targets. This automatically leads to less new business being written.

The weaker eurozone countries no longer represent core markets for HVB overall. The existing portfolios have been identified for reduction for various reasons and concrete objectives to that effect have been formulated and agreed.

The developments in selected countries, including countries with an active reduction strategy, and the respective drivers are outlined below.

France

HVB has expanded its exposure in France, as this represents a growth market for the Bank.

Greece

The reduction strategy for Greece that was already initiated in May 2010 continued to be systematically implemented. New business in Greece was completely discontinued, which led to a decline of €213 million in exposure. The sovereign exposure was reduced to €2 million (31 December 2011: €28 million). A working group was set up in the first half of 2012 to analyse the legal, tax and payment-related consequences of Greece leaving the eurozone (Grexit) as well as the risk issues. The results were as follows:

– A Greek exit does not represent an additional risk for the Shipping portfolio in Greece.
– The structural elements of the toll-road and wind-energy projects are stable and do not presently indicate insolvency in the Grexit scenario.
– For the business customer portfolio, guarantees have been obtained from companies from our core markets with immaculate credit ratings and the purely Greek companies also have cash flow sources outside of Greece.

Italy

The relatively large portfolio involving Italy results from the HVB sub-group's role as UniCredit's investment bank. This portfolio is also being run with a view to reduction and managed in accordance with market standards (such as CSA for derivatives contracts). The exposure to Italy includes the exposure with UniCredit S.p.A., for which a separate strategy was defined (see also the comments above regarding the Banks, Insurance Companies portfolio).

Luxembourg

The exposure in Luxembourg, which is not subject to a reduction strategy, increased as a result of a major finance facility granted to a subsidiary of a listed company with an investment grade rating.

Portugal

Measures aimed at reducing the Portugal portfolio were also initiated and successfully implemented, as reflected in the decline in exposure.

Spain

Spain is not one of HVB's core markets. Nevertheless, we do support a few multinational corporates with connections to Germany. The Spain exposure still arising from the previous strategic orientation is being reduced as planned. We do not see any increased risk with regard to the credit standing of customers who only generate a small portion of their cash flows in Spain. Maturing loans are extended again by a different UniCredit company outside of HVB rather than being rolled over. The exposures in the construction sector have been greatly reduced. A stress test was carried out for positions in Spanish covered bonds (multi-seller cedulas). This indicated no acute need for action, even under extreme assumptions, meaning that we retained our strategy of reduction at maturity.

These measures helped to greatly reduce the exposure in Spain in the first three quarters of 2012.

Cyprus

A reduction strategy was also implemented in August 2012 for the relatively insignificant Cyprus portfolio.

Risk Report (Continued)

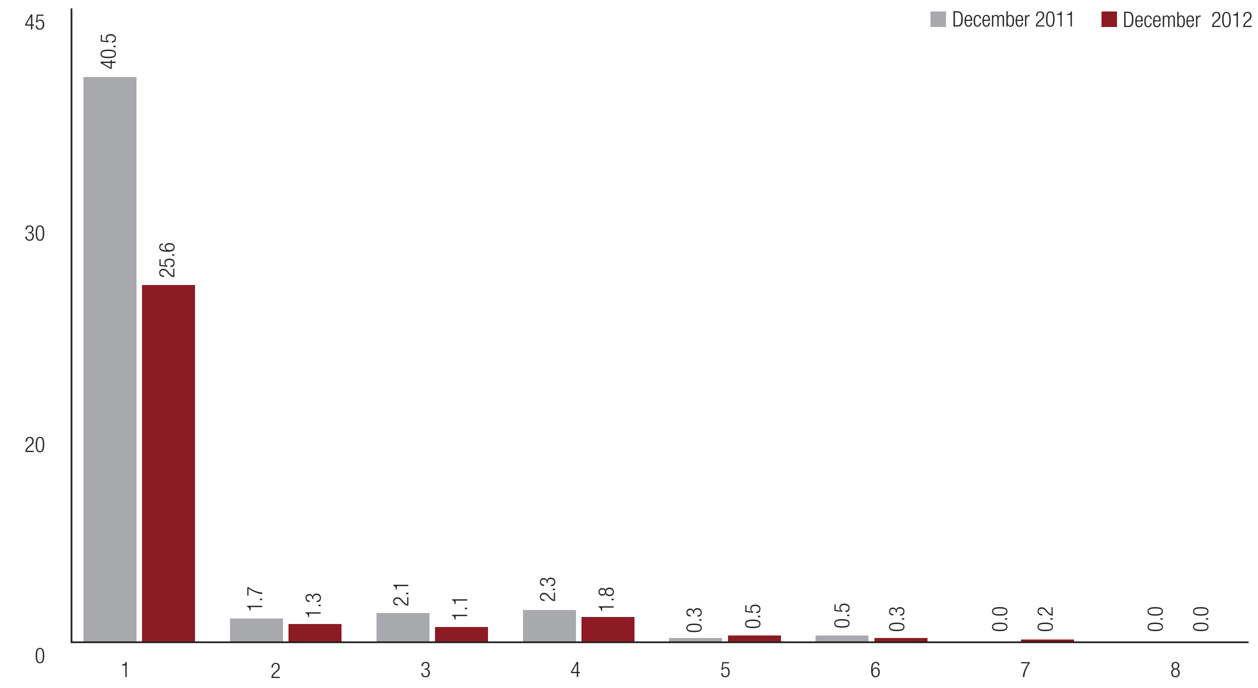
Development of exposure to country risk
At 31 December 2012, the exposure of HVB to country risk totalled €30.8 billion, down by a considerable €16.7 billion (35%) compared with 31 December 2011. The reduction is due mainly to money trading activities. The UK above all has a lower trading volume (€12.2 billion), which should be viewed among other things in connection with the volatile liquidity management of HVB's branch operations.

At 92%, the largest part of the portfolio has investment grade ratings, down slightly on 2011 (94%). This is connected with the lower trading volume in the countries with investment grade ratings.

Within eastern Europe, Hungary was under observation by the "radar screen for financial institutions/banks". The exposure has been reduced from €453 million (2011) to €341 million. New business with banks is only written selectively. There is currently only an issuer risk in the trading book of €3 million with the government of Hungary (sovereign). Furthermore, the exposure in the North Africa sub-region has been reduced from €281 million (2011) to €208 million. Special approval processes are applicable here on a case-by-case basis, reflecting the political upheaval in some countries in conjunction with economic failures. The exposure to sovereigns in this region, including central banks, totals €11 million for lending business and €7 million for issuer business in the trading book.

In non-eurozone countries, HVB focuses on supporting its key customers in international markets, primarily in Switzerland and the UK as well as Asia and the Americas.

Country exposure[1] by rating class (€ billions)



1 without eurozone countries; net of collateral

Country exposure[1] by region and product category

(€ millions)

Region	LENDING BUSINESS 2012	LENDING BUSINESS 2011	COUNTERPARTY RISK 2012	COUNTERPARTY RISK 2011	ISSUER RISK 2012	ISSUER RISK 2011	TOTAL 2012	TOTAL 2011	ISSUER RISK IN TRADING BOOK 2012
Western Europe	5,501	6,102	4,651	19,489	268	316	10,420	25,907	1,748
Asia/Pacific	1,954	2,236	7,394	3,278	43	222	9,391	5,736	91
North America	778	1,163	4,749	7,269	229	626	5,756	9,058	535
Eastern Europe	1,989	2,555	1,194	1,546	1	55	3,184	4,156	295
of which Hungary	11	13	330	398	—	42	341	453	10
Central and South America	508	723	698	417	444	847	1,650	1,987	49
Africa	260	486	132	110	—	—	392	596	11
of which North Africa	180	238	28	43	—	—	208	281	10
HVB	**10,990**	**13,265**	**18,818**	**32,109**	**985**	**2,066**	**30,793**	**47,440**	**2,729**

1 without eurozone countries; net of collateral; excluding transactions with loan-loss provisions

HVB: top ten countries by exposure[1]

at 31 December 2012

(€ millions)

Country	EXPOSURE 2012	EXPOSURE 2011
UK	5,558	19,649
USA	4,996	7,709
Switzerland	3,885	4,732
Hong Kong	3,354	1,546
Singapore	2,977	1,451
Japan	1,184	189
Turkey	1,151	1,155
Russian Federation	1,026	1,801
Cayman Islands, offshore	828	517
China	523	772
HVB	**25,482**	**39,521**

1 without eurozone countries; net of collateral; excluding transactions with loan-loss provisions

Financial derivatives

Financial derivatives are used primarily to manage market price risk (in particular, risk arising from interest-rate fluctuations and currency fluctuations) arising from trading activities, and also serve to provide cover for on- and off-balance-sheet items within asset/liability management. Besides market risk, they bear counterparty risk or, in the case of credit derivatives which serve to manage credit default risk, also issuer risk.

The positive fair values are essentially relevant for purposes of default risk as replacement values for the OTC derivatives, which represent the potential costs that HVB would incur to replace all of the original contracts with economically equivalent transactions in the event of simultaneous default by all counterparties.

Without taking risk-reducing effects into account, the maximum counterparty risk (worst-case scenario) for HVB at year-end totalled €109.3 billion (31 December 2011: €124.4 billion).

In accordance with the banking supervision regulations under Basel II (German Banking Act/Solvency Regulation), risk-weighted assets for HVB amounted to €12.9 billion at 31 December 2012 (31 December 2011: €14.2 billion) with so-called partial use based on individual risk weightings and the risk-reducing effects of existing, legally enforceable, bilateral netting agreements as well as the collateral provided by borrowers.

The following tables provide detailed information on the nominal amount and fair values of all derivative transactions and credit derivative transactions of HVB.

Derivative transactions

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE[1]			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2012	2011	2012	2011	2012	2011
Interest rate derivatives	**1,034,437**	**1,169,440**	**935,977**	**3,139,854**	**3,331,143**	**96,358**	**101,279**	**95,987**	**100,297**
OTC products									
Forward rate agreements	190,361	6,165	—	196,526	145,485	72	68	43	33
Interest rate swaps	650,133	995,559	758,969	2,404,661	2,545,127	90,086	91,092	88,656	90,899
Interest rate options									
– purchased	44,547	88,221	86,126	218,894	265,072	5,620	9,852	240	103
– written	32,123	67,013	89,431	188,567	227,963	347	202	6,906	9,193
Other interest rate derivatives	27,017	—	—	27,017	24,430	233	64	142	69
Exchange-traded products									
Interest rate futures	40,668	11,885	1,208	53,761	63,131	—	—	—	—
Interest rate options	49,588	597	243	50,428	59,935	—	1	—	—
Foreign exchange derivatives	**203,846**	**29,805**	**582**	**234,233**	**323,886**	**2,979**	**5,472**	**2,948**	**6,007**
OTC products									
Foreign exchange forwards	165,572	21,635	116	187,323	219,782	2,413	4,058	2,306	4,599
Foreign exchange options									
– purchased	19,111	4,099	252	23,462	51,728	349	976	240	467
– written	19,145	4,071	214	23,430	52,342	217	438	402	941
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	18	—	—	18	34	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Cross-currency swaps	**35,936**	**137,985**	**76,680**	**250,601**	**254,022**	**5,075**	**6,202**	**5,644**	**6,800**
Equity/index derivatives	**63,442**	**43,219**	**7,867**	**114,528**	**123,340**	**3,209**	**5,099**	**3,604**	**6,068**
OTC products									
Equity/index swaps	4,546	6,320	735	11,601	12,056	200	234	292	236
Equity/index options									
– purchased	8,529	8,721	359	17,609	23,752	1,268	2,581	32	4
– written	33,679	13,567	5,968	53,214	48,192	69	55	1,723	2,847
Other equity/index derivatives	2,169	1,220	—	3,389	2,353	212	192	1	2
Exchange-traded products									
Equity/index futures	2,751	7	—	2,758	5,179	—	—	—	—
Equity/index options	11,768	13,384	805	25,957	31,808	1,460	2,037	1,556	2,979
Credit derivatives[2]	**52,457**	**86,508**	**6,062**	**145,027**	**222,915**	**1,592**	**5,384**	**1,486**	**5,434**
Other transactions	**3,670**	**2,981**	**722**	**7,373**	**9,169**	**210**	**1,161**	**263**	**1,408**
HVB	**1,393,788**	**1,469,938**	**1,027,890**	**3,891,616**	**4,264,475**	**109,423**	**124,597**	**109,932**	**126,014**

1 compliant with the provisions of IAS 32 (IAS 32.42 in conjunction with IAS 32.48), the offsetting positive and negative fair values at currency level were netted for OTC derivatives concluded with the same central counterparty. The same principle was applied for the disclosures in the table “Derivative transactions by counterparty type” below

2 for details of credit derivatives, please see the tables “Credit derivatives” and “Credit derivatives by reference asset” below

Derivative transactions with a residual maturity of up to three months accounted for a nominal total amount of €581,425 million at 31 December 2012 (thereof credit derivatives: €13,061 million).

Derivative transactions by counterparty type

(€ millions)

	FAIR VALUE			
	POSITIVE		NEGATIVE	
	2012	2011	2012	2011
Central governments and central banks	4,466	3,562	2,468	1,713
Banks	90,777	90,834	93,795	95,358
Financial institutions	10,749	26,043	12,281	27,507
Other companies and private individuals	3,431	4,158	1,388	1,436
HVB	**109,423**	**124,597**	**109,932**	**126,014**

Credit derivatives

(€ millions)

	NOMINAL AMOUNT					FAIR VALUE			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2012	2011	2012	2011	2012	2011
Banking book	**74**	**367**	**—**	**441**	**872**	**7**	**73**	**10**	**68**
Protection buyer									
Credit default swaps	49	267	—	316	446	7	73	4	—
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Protection seller									
Credit default swaps	25	100	—	125	426	—	—	6	68
Total return swaps	—	—	—	—	—	—	—	—	—
Credit-linked notes	—	—	—	—	—	—	—	—	—
Trading book	**52,383**	**86,141**	**6,062**	**144,586**	**222,043**	**1,585**	**5,311**	**1,476**	**5,366**
Protection buyer									
Credit default swaps	27,019	41,466	2,971	71,456	104,672	851	4,799	622	363
Total return swaps	58	78	—	136	184	70	—	—	1
Credit-linked notes	732	1,929	125	2,786	2,303	73	159	26	14
Protection seller									
Credit default swaps	24,469	42,367	2,953	69,789	114,003	585	352	809	4,928
Total return swaps	—	—	—	—	61	—	—	—	1
Credit-linked notes	105	301	13	419	820	6	1	19	59
HVB	**52,457**	**86,508**	**6,062**	**145,027**	**222,915**	**1,592**	**5,384**	**1,486**	**5,434**

Credit derivatives by reference asset

(€ millions)

	NOMINAL AMOUNT				
	CREDIT DEFAULT SWAPS	TOTAL RETURN SWAPS	CREDIT-LINKED NOTES	TOTAL 2012	TOTAL 2011
Public sector bonds	48,903	58	969	**49,930**	**54,091**
Corporate bonds	85,466	—	2,233	**87,699**	**155,744**
Equities	13	—	—	**13**	**15**
Other assets	7,304	78	3	**7,385**	**13,065**
HVB	**141,686**	**136**	**3,205**	**145,027**	**222,915**

Risk Report (Continued)

Business involving credit derivatives in connection with iTraxx and CDX underlyings was pared back in 2012. This affected both the CDS on indices and the CDO business that are also largely referenced to these indices in the Bank.

Since the indices concerned largely comprise corporate bonds, a decline in the corresponding category for the reference assets occurred in parallel.

Furthermore, some of the decline results from single-name CDS business involving a standalone underlying in the form of a corporate bond.

All in all, the volume of regularly achieved maturities identifiable for 2012 clearly exceeded the volume of new business written in 2012.

Single-name credit derivatives made up 71.3% of the total; multi-name credit derivatives, relating to baskets or indices, accounted for a share of 28.7%.

Stress test

By carrying out stress tests in the credit portfolio, the credit risk managers obtain information about the possible consequences of a deterioration in the underlying economic conditions in addition to the monthly analysis of the real portfolio development. The focus here is on the risk metrics of risk-weighted assets (RWA), expected loss and economic capital, and the changes in the portfolio quality. Sensitivity analyses, concentration stress tests and inverse stress tests are carried out alongside the stress tests based on macroeconomic scenarios (results of which are included in the cross-risk-type stress analysis). The approach based on the internal default risk model is supplemented by the opinion of experts from the SRM and the sales units.

Summary and outlook

It is safe to conclude that HVB continues to enjoy a positive risk situation.

Among other things, this can be attributed to the broadly diversified credit portfolio in conjunction with conservative risk management policies and a clearly focused credit risk strategy.

Changing the placement of HVB's excess liquidity to Deutsche Bundesbank was one of the factors contributing to the positive risk structure of the credit portfolio.

Risk positions and concentrations were identified at the start of the year and systematically controlled on the basis of the individual strategic objectives. In particular, this affected the weaker eurozone countries, Hungary, the countries of North Africa and the Shipping portfolio.

In order to ensure that this positive development continues going forward, the risk strategy approved for 2013 clearly defines core markets, portfolios earmarked for reduction and controlling instruments amid the changing underlying economic conditions. This will ensure that credit default risk is actively controlled and limited going forward, HVB will constantly refine its risk management programme in order to continue optimally meeting future changes and the ensuing requirements.

2 Market risk

Definition

Market risk is defined as the potential loss arising from an adverse change in value of positions in the trading and banking books. Market risk comprises the following risk categories: interest rate, foreign exchange, equity, credit spread and commodity risk, and also includes option risks.

Categories

We define interest rate risk as the risk of values changing on account of fluctuations in interest rates.

Foreign currency risk arises from fluctuations in exchange rates.

Stock and commodity risk is defined as the risk arising from changing rates on the stock and/or commodity markets.

The credit spread is the premium on the interest rate compared with a risk-free investment. Fluctuations in the credit spread give rise to credit spread risk.

The risk that results from changes in volatilities is subsumed in option risk.

Strategy

Our market risk is essentially managed by the CIB division and to a lesser extent by our subsidiaries. As was already the case in 2011, the focus in 2012 was again on further consolidating risk-bearing transactions and concentrating on customer transactions. Following on from the closure of the cash-equity business for western Europe, the equivalent business in eastern Europe was also terminated. The reduction of the credit correlation portfolio was largely completed by year-end 2012. A new electronic platform used to generate structured equity derivatives at specific customer request was successfully implemented for mass market activities. A reduction in the complexity of commodity activities was concluded with regard to both the complexity of the products and the number of markets and products covered. Around one-fifth of our market risk is located in the trading book, with the focus in the trading unit responsible for interest rate-related trades. Outside of the trading book, market risk is concentrated in legacy portfolios, bonds and Treasury. These activities are included in the limit system as part of market risk management.

Limit system

All transactions exposed to market risk in the trading and banking books of HVB are aggregated every day to form a total VaR and set against the risk limits. The Management Board approves and, if necessary, adjusts the risk limits every year. Limits are defined for trading books using VaR limits, whereas limits are set for the combination of trading and banking books by VaR warning levels. Both groups of limits are equally binding and compliance is equally enforceable. In April 2012, the trading book limit for HVB was reduced from €80 million in 2011 to €50 million in line with the Bank's risk strategy. The VaR warning level used to limit all market risks was also greatly reduced. A VaR warning level of €120 million was set for 2012 instead of the limit of €150 million used for the CIB division in 2011.

Monitoring of the new regulatory metrics (stressed value-at-risk, incremental risk charge and comprehensive risk measure) to be used for the internal model is ensured by setting limits for the risk values that are reported on a weekly basis.

Alongside management using the VaR approach, the risk positions of a few key units are restricted by an additional bundle of granular limits. These limits relate to sensitivities, stress test results and nominal volumes in various risk classes.

Measurement

We use a VaR approach based on a historical simulation to determine market risk. In this context, the VaR is the maximum loss that, with a certain probability defined as the confidence level, will not be exceeded over a given period. We use a confidence level of 99% and a holding period of one day for internal risk reports, controlling and risk limits.

The historical simulation is a simple method that makes it possible to calculate the VaR without having to make any fundamental assumptions regarding the statistical distributions of the movements in the portfolio value. This approach encompasses the direct generation of the hypothetical distribution of the earnings (gains and losses) from a portfolio of financial instruments using the historical market price fluctuations over the last two years. As soon as the hypothetical distribution has been determined, the VaR is provided by determining the percentile of the 99% confidence level.

For the purposes of internal risk management, the new market risk metrics defined in the current German Solvency Regulation have been calculated and limited on a weekly basis since July 2011 alongside the VaR. The new requirements are the result of the revised Capital Requirements Directive (CRD III). The German Solvency Regulation requires these metrics to be included when determining the equity capital requirements as of December 2011.

Risk Report (Continued)

- Calculation of the potential stressed VaR:
  The stressed VaR is calculated in the same way as the VaR, although the 12-month observation period with most significant negative market changes for the HVB portfolios is selected. The amount calculated for the regulatory report relates to a holding period of ten days and a confidence level of 99%.
- Incremental risk charge (IRC) for non-securitised credit products:
  Internal approach used to determine the additional default and migration risk in the net interest positions. Both the change in ratings (migration) and the potential default on a credit product are taken into account. The calculated amount relates to a holding period of one year and a confidence level of 99.9% for both regulatory and internal reporting.
- Comprehensive risk measure (CRM) for the correlation trading book:
  Internal approach used to calculate the value change risk. Both the crisis scenarios required by the supervisory authorities and internal crisis scenarios must additionally be calculated by the risk system for the correlation trading book on a weekly basis. The calculated amount relates to a holding period of one year and a confidence level of 99.9% for both regulatory and internal reporting. We will cease using this approach at the start of 2013 on account of the reduction of the positions in the correlation trading book.
- Standard Approach for (re-)securitisations:
  Outside of the internal model, the regulatory Standard Approach for the specific interest rate risk is applied to securitised credit products that may not be held in the correlation trading portfolio (illiquid CDOs and resecuritisations).

The new risk metrics also started to be used for the purposes of the regulatory report as of 31 December 2011. The use of these new metrics was approved by BaFin in December 2011. We are currently addressing the outstanding findings determined by the audit.

Monitoring and controlling

The market risk positions in the trading and banking books are monitored using a hierarchical limit system that restricts the potential loss from market risk. This involves restricting the VaR totals from trading positions by setting trading book limits. At the same time, all positions, irrespective of the regulatory or IFRS classification, are limited by what are known as VaR warning levels.

The VaR figures are reported daily along with the limit utilisation and the earnings figures (P/L figures) to the Management Board and the responsible persons in the CIB division. Whenever trading book limits or VaR warning levels are exceeded, an escalation process is triggered immediately and the reduction of the positions in question monitored. In 2012, such reduction was, with a few exceptions, carried out within one day. If the specified limit was exceeded on the following day as well, the escalation process was again initiated immediately.

In addition to the market risk reported on a daily basis, there is also market risk arising from positions that are assigned directly to the Management Board. The VaR warning level used for these positions was left unchanged at €40 million in 2012.

Market Risk Controlling has direct access to the front-office systems used in trading operations. The supervision of trading activities is based on the prompt allocation to credit risk limits and the detailed check of the P/L on the following day. In this context, both the daily turnover and the P/L generated on intraday transactions are determined.

In addition to the daily reports, the management is informed on a weekly and monthly basis about the results of the risk analysis, including the results of the back-testing and stress tests as well as sensitivity ratios.

To determine and allocate the economic capital requirements for market risks, the maximum VaR of the last 250 days is scaled, like for other risk types, to a confidence level of 99.97% and a holding period of one year, taking portfolio effects into account. Unlike in internal risk controlling, any hedge effect of the model book for equity is not included in the economic capital. Reclassified holdings ceased to be managed at the start of 2012.

Furthermore, market risk arising from the IRC, the CRM and the market risk standard Approach is also included. This risk is also scaled appropriately to achieve a confidence level of 99.97%.

Simulation of interest income
In addition, a dynamic simulation of interest income is carried out for HVB on a quarterly basis. The future development of the net interest income is simulated under various scenarios regarding the development of interest rates. Assuming a constant volume of business, a parallel interest shock of minus 100 basis points would result in a €191 million decrease in net interest income within the next twelve months (31 December 2011; minus 100 basis points: €88 million).

The increase in the loss results from the very low level of interest rates under which the liabilities side hardly responds downwards to changes in interest rates.

Quantification and specification
The economic capital for the market risk of HVB without taking account of diversification effects between the risk types amounts to €2.5 billion, up by €0.8 billion on the figure at 31 December 2011 (€1.7 billion). The increase results from the additional inclusion of the new market risk metric and the addition of reclassified holdings in the banking book.

The following table shows the aggregated market risks of our trading positions at HVB over the course of the year. The decrease in market risk during the course of the year results from both the lower risk assumed in 2012 and declining volatility on the financial markets.

Market risk from trading positions of HVB (VaR, 99% confidence level, one-day holding period) (€ millions)

	AVERAGE 2012[1]	31/12/2012	30/9/2012	30/6/2012	31/3/2012	31/12/2011
Interest rate positions (incl. credit spread risks)	24	17	23	23	33	45
Foreign exchange derivatives	2	2	1	1	2	10
Equity/index positions[2]	7	4	5	6	11	7
Diversification effect[3]	(13)	(7)	(12)	(12)	(19)	(27)
HVB	**20**	**16**	**17**	**18**	**27**	**35**

1 arithmetic mean of the four quarter-end figures
2 including commodity risk
3 because of the diversification effect between the risk categories, the total risk is less than the sum of the individual risks

The high diversification effect at the start of the year shows the strong netting effect of currency and equity transactions on interest rate risk.

The VaR development in 2012 shows a sharp decline in market risk in the trading book. The decline in the VaR figures is essentially driven by position reductions, especially in the credit correlation portfolio, and by reduced exposure to hedge fluctuations in the own credit spread. The decreased volatility on the financial markets helped to reduce the exposure.

Development of trading book value-at-risk at HVB (€ millions)

The results of the new risk metrics also indicate a reduction during the course of the year. A large decline in the CRM figure is shown for the first and second quarters of 2012. This is consistent with the Bank's strategy of stepping up the reduction of the credit correlation portfolio. A significant step was taken in this direction in the months of April and May. The decrease in the IRC value between June and September essentially results from position reduction. The sharp decrease at 31 December 2012 arises from the expiry of positions that were originally entered into to hedge fluctuations in the own credit spread.

New regulatory metrics[1] at HVB (CRD III figures)

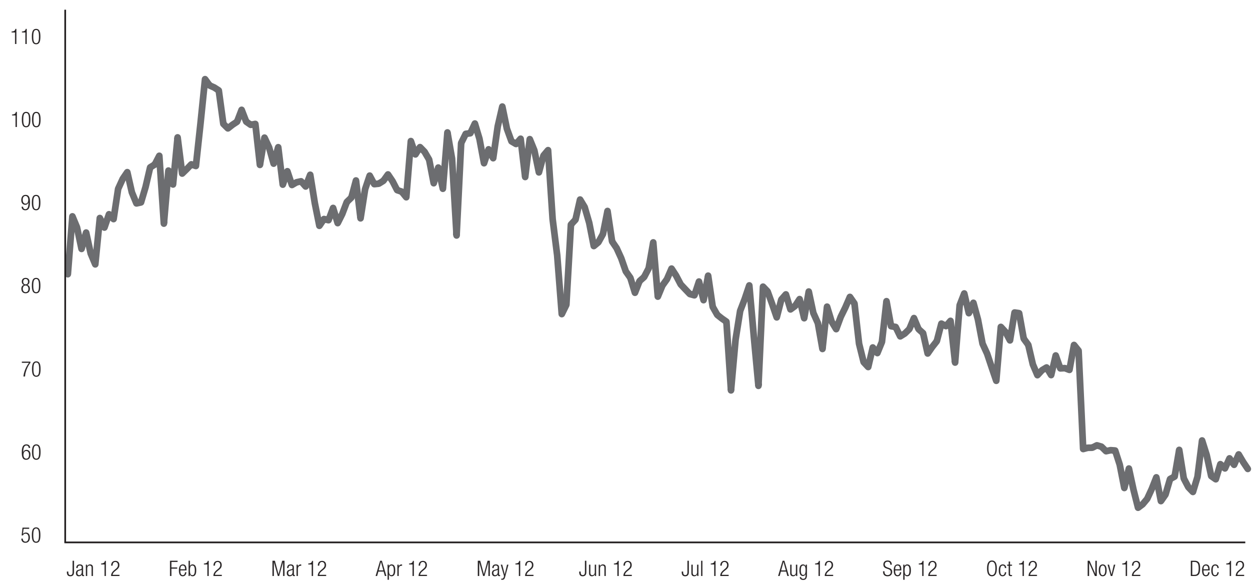
(€ millions)

	31/12/2012	30/9/2012	30/6/2012	31/3/2012	31/12/2011
Stressed value-at-risk	22	24	24	38	31
Incremental risk charge	201	436	521	511	591
Comprehensive risk measure	—	21	26	165	360
Market risk Standard Approach	22	32	38	107	52

1 risk values based on internal reporting

Alongside the market risk arises from trading books that is relevant for regulatory reporting, further market risk arising from positions in the banking book. All transactions exposed to market risk in the trading and banking books of HVB are consolidated for the purpose of risk controlling. Most of the market risk arises from positions of the CIB division at HVB.

Market price risk of HVB (€ millions)



The chart "Market price risk of HVB Group" shows all the market price risk exposures arising from trading and banking book positions together with the market price risk exposure assigned directly to the Management Board.

In addition to calculating the value-at-risk, the risk profile of the banking book is examined using sensitivity analyses. A 10% appreciation of all foreign currencies (FX sensitivity) results in a decrease in the portfolio value by €4 million (0.1% of the regulatory capital) in the banking book of HVB (31 December 2011: a decrease of €18 million).

Value change in case of a 10% FX appreciation

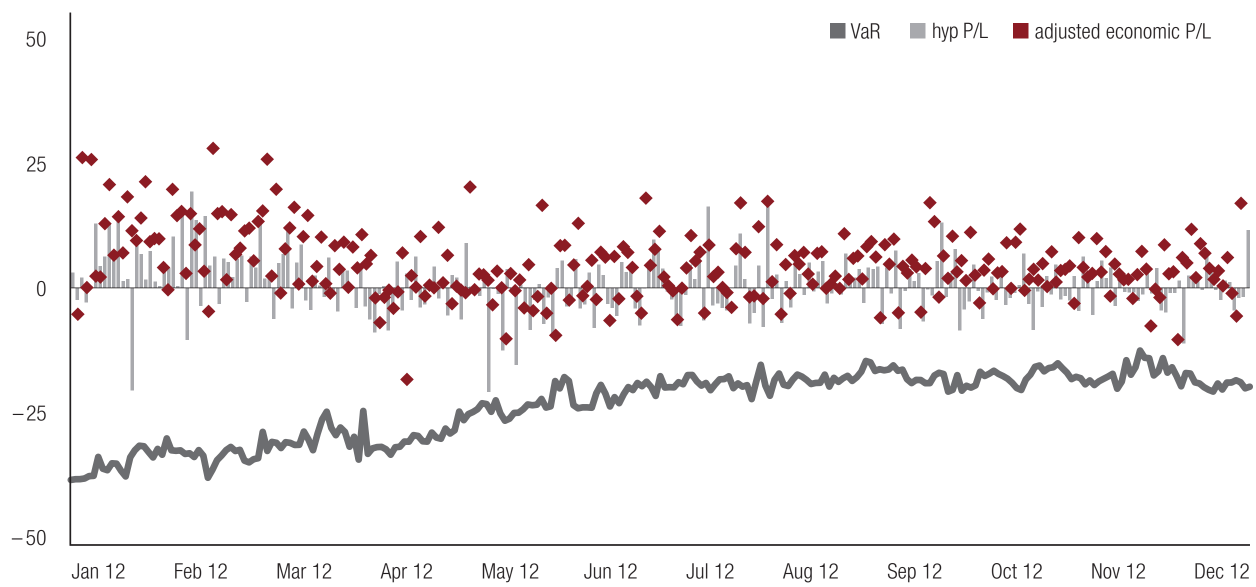
at 31 December 2012 (€ millions)

HVB BANKING BOOK	
Total	(4.03)
USD	4.22
GBP	(13.51)
CHF	2.99
JPY	0.82
CAD	(0.81)
HKD	0.06

Risk Report (Continued)

We check the appropriateness of the methods used to measure market risk by means of regular back-testing that compares the value-at-risk calculations with the hypothetical market value changes derived from the positions. In 2012, there were no back-testing exceptions to report (see chart "Back-testing of new internal model: HVB trading activities in 2012 (€ millions)"). On days with a back-test overshoot, the amount of the hypothetical loss would have been greater than the forecast value-at-risk. Starting in 2012, we have also used a back-test based on an adjusted economic P/L to validate the model alongside the back-test using the hypothetical P/L.

Back-testing of new internal model: HVB trading activities in 2012 (€ millions)



Market liquidity risk

Market liquidity risk (the risk that the Bank will be able to liquidate assets on the market only at a discount) is managed by the people responsible for the various portfolios as they perform their defined market-related tasks. Reference should essentially be made to the measurement and monitoring instruments listed for market risk. An appropriate stress test is used for quantification purposes.

Fair value adjustments (FVAs) are used to reflect valuation uncertainties related to the market liquidity of securities and derivatives in the accounts for both the trading book and the banking book. The FVAs include among other things a premium for close-out costs and non-liquid positions related to the assessment of fair values.

In the course of stress tests, the risk from deteriorating market liquidity is analysed. In this regard, analysis is carried out to determine the amount of losses that would result from the liquidation of HVB's trade and banking book positions in a market environment with greatly expanded bid-offer spreads. For December 2012, the tests showed a potential loss of €404 million (2011: €548 million).

Stress test

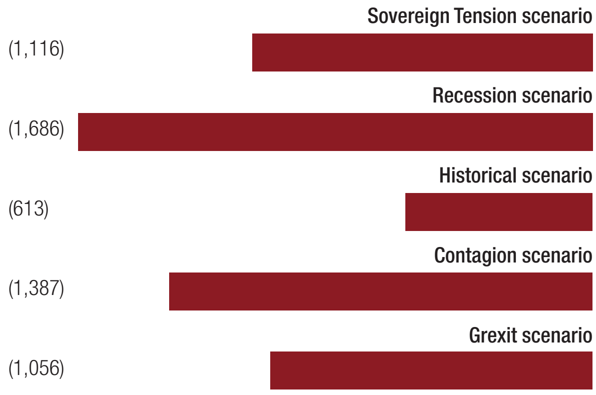
In addition to calculating the value-at-risk and the new metrics, we continually conduct stress tests to determine the potential losses in our market risk positions resulting from extreme market movements and extraordinary events. The scenarios we examine range from large movements in rates, currency and equity markets through to disruptions in the underlying volatilities. Further scenarios are also considered, such as a widening of credit spreads. We also analyse macroeconomic stress scenarios based on real market upheavals (historical stress tests) or current threats (hypothetical stress tests).

One example for a historical scenario used is based on experience gained from the financial crisis. To evaluate the effects of a financial crisis on a regular basis, we introduced the stress-test scenario "Financial crisis". This scenario reflects the trend in the financial crisis in the third quarter of 2008. To take into account the low market liquidity, the time horizon for this scenario was expanded to include a full quarter.

Further hypothetical scenarios are based on the potential market movements in the event of a worsening of the debt crisis in Europe or a negative demand shock in Germany (Recession scenario/Adverse Demand Shock). The expansion of the debt crisis is examined using the scenarios "Sovereign Tensions" and "Contagion". All are based on the assumption of a default by a euro sovereign with widespread escalation of the crisis to other euro states.

The most significant stress result from this package of stress test scenarios at 31 December 2012, with a potential loss of €1.7 billion (2011: €2.0 billion), results from the Recession scenario. This scenario is also used in the cross-risk-type stress tests, where it is analysed for risk-bearing capacity.

HVB stress testing at 31 December 2012 (€ millions)



As described in the section covering the implementation of overall bank management, inverse stress tests were performed for the first time in 2012. Risks resulting from market risk in the banking portfolio were also included in this analysis.

In compliance with the Circular issued on 9 November 2011 by the German Federal Financial Supervisory Authority (BaFin), the change in the market value of the banking book in case of a sudden and unexpected interest shock of +/– 200 basis points is compared with the Bank's eligible equity funds. We also carried out this valuation with and without the hedging effect from the equity capital model book. With a notional utilisation of 0.5% (31 December 2011: 0.6%), or 4.2%, excluding the model book (31 December 2011: 3.2%), of its regulatory equity capital at the end of December 2012, HVB is well below the 20% above which the banking supervisory authorities consider a bank to have increased interest rate risk. Without the valuation effects of the reclassified portfolios, the rate of equity capital utilisation is 0.7% (31 December 2011: 0.6%) or 4.2% without the model book (2011: 3.4%).

Summary and outlook

As was already the case in 2012, efforts will be again made in 2013 to concentrate on low-risk customer business in our financial market activities. HVB will continue to invest in the development and implementation of electronic sales platforms.

3 Liquidity risk

Definition
We define liquidity risk as the risk that the Bank will not be able to meet its payment obligations in full or on time. However, it is also defined as the risk of not being able to obtain sufficient liquidity when required or that liquidity will only be available at higher interest rates, and the risk that the Bank will only be able to liquidate assets on the market at a discount. Liquidity risk comprises the following risk categories: short-term liquidity risk, operational liquidity risk (part of short-term liquidity risk), funding risk and market liquidity risk.

Categories
Short-term liquidity risk
HVB defines short-term liquidity risk as the risk of not being able to meet its payment obligations on time or in full.

Operational liquidity risk, which is part of the short-term liquidity risk
Operational liquidity risk, which is part of the short-term liquidity risk, may arise when a financial institution cannot meet its intraday payment obligations from current incoming and outgoing payment transactions.

Funding risk
We define funding risk as the risk of not being able to obtain sufficient liquidity at the expected interest rates or only at higher interest rates.

Market liquidity risk
This is defined as the risk that the Bank will not be able to liquidate assets on the market or only do so at a discount. The management of market liquidity risk is described in the section covering market risk.

Strategy
Liquidity management at HVB is divided into short-term liquidity management (less than one year) and long-term liquidity management. Risk drivers that may be the cause of potential liquidity outflows have been identified for the various business units.

Furthermore, various dimensions of liquidity risk management have been defined to which appropriate instruments and controlling mechanisms have been assigned depending on the type of risk involved.

The risk appetite is defined with regard to liquidity risk on the basis of the business activities and taking into account risk sources and risk drivers. This forms the foundation for the management and limit mechanisms, such as liquidity reports, projections and plans, and the definition of liquidity buffer to be maintained for unexpected outflows of liquidity during the day. Furthermore, a limit system has been set and triggers defined. The result is the specification of a minimum survival period that matches the risk appetite.

The risk appetite for long-term liquidity management is indicated in the form of a metric for the ratio of liabilities to assets, helping to avoid pressure on short-term liquidity management.

Limit system
For short-term liquidity risk, we have put in place a cash-flow-oriented limit system that tracks the relevant balances within HVB per working day and limits the positions appropriately.

The difference between the calculated potential liquidity requirement and the existing liquidity reserves is limited. Long-term liquidity risk is restricted by defining a limit for the ratio of liabilities to assets.

A limit was set for operational liquidity risk by implementing an intraday liquidity buffer by means of which additional liquidity is maintained to cover unforeseeable outflows.

We are able to cope with the effects arising from the change in funding spreads to a very large extent by limiting funding risk. In addition, the internal transfer prices for the lending and deposit-taking activities are continually reviewed for appropriateness and regularly adjusted to reflect the market situation.

Reduction

Among other ways of reducing liquidity risk, we set processes, implement an early warning system and a limit system, and manage the highly liquid assets made available as collateral.

Measurement

Short-term liquidity risk

To measure short-term liquidity risk, cash flow profiles are produced on a daily basis. The resulting balances are compared with the available liquidity reserves, which consist primarily of the available highly liquid securities eligible at all times as collateral for central bank borrowings. The cumulative balance of the named components is backed with limits for all maturity buckets of up to three months for the relevant units of HVB.

Furthermore, stress scenarios based on the liquidity profiles of the units of HVB are simulated at regular intervals. These stress scenarios take into account internal influences (e.g. possible HVB-specific incidents), external factors (e.g. disruptions in global financial markets) and a combination of internal and external factors. A time horizon of up to two months is defined for the stress scenarios, during which the available liquidity reserves are expected to exceed the simulated outflows of liquidity. This ensures that countermeasures can be initiated promptly, if required.

In addition to this internal measurement methodology, HVB is subject to the regulatory standards defined in the German Liquidity Regulation for short-term liquidity risk.

Funding risk

To measure funding risk, long-term funding needs are determined using a coordinated process which is based on the expected business development reported and updated as required. The long-term funding need, which is used to set the funding targets and is presented to the ALCO, additionally takes into account the assets and liabilities falling due in the period. Limiting maturity mismatches between the long-term assets and liabilities ensures a balanced funding structure in defined maturity buckets. The key assumptions underlying the risk measurement methods are reviewed on a regular basis to assess their appropriateness.

Monitoring and controlling

The monitoring of our liquidity situation has been entrusted to the Finance department of our CFO organisation. To all intents and purposes, it involves analysing and managing mismatches in the maturities of assets and liabilities, which are limited for defined maturity periods through limits and funding targets. Compliance with the limits allocated for short-term liquidity risk is monitored on a daily basis and the long-term funding ratios are monitored monthly. The stress scenarios are also calculated on a weekly basis.

For short-term liquidity risk, moreover, stress analyses based on various scenarios enable us to make projections on the impact of sudden disruptions on our liquidity position so that we are in a position to take the necessary management measures as early as possible.

HVB limits operational liquidity risk as part of short-term liquidity risk by monitoring positions constantly during the day and forecasting the relevant account balances. Furthermore, a minimum volume of unused liquidity must be kept available to cover any additional intraday liquidity required due to unexpected outflows of liquidity (intraday liquidity buffer).

Risk Report (Continued)

The funding risk of HVB is well-balanced thanks to the diversification of our funding across products, markets and investor groups. The front-office units implement the volume and product parameters derived from the funding targets cost-efficiently upon consultation with the Finance unit.

CRO units calculate early warning indicators and present concentration risk at regular intervals.

The rules and principles of liquidity management are specified in a Liquidity Policy adopted by the Management Board of HVB. Depending on the defined risk appetite, the basic points set out in the policy are based on the ability to meet financial obligations at any time. The targets also include optimising the expected cash flows, limiting the cumulative liquidity gap, carrying out stress tests on a regular basis and limiting both short-term and operational liquidity risk.

The liquidity policy complete with the contingency plan and other supplementary provisions must be updated at least once a year. The liquidity policy is implemented by the operational business units and is coordinated and monitored for the relevant HVB units by the Finance department in the CFO organisation.

Operational liquidity risk

To monitor operational liquidity risk, HVB uses a minimum balance which must be met throughout the day. It is continually monitored and checked against the actual volumes in the relevant accounts.

The local treasury units are responsible for observing developments in their respective local markets. These units submit reports to the Finance department as needed.

The ALCO and the management are regularly informed of the current liquidity and funding situation. A contingency plan is in place to allow the impact of potential liquidity risk to be managed. This contingency plan describes and regulates the distribution of responsibilities, internal reporting requirements, decision-making powers and potential countermeasures.

Quantification and specification

Short-term liquidity risk

Within the framework of our limit system, we showed an overall positive balance of short-term liquidity risk of €37.9 billion in HVB for the next banking day at the end of December 2012 (2011: €21.5 billion). The increase in the volume is caused among other things by the reduction in risk-weighted assets and also an expression of the greater confidence in the German market. The portfolio of highly liquid securities eligible at short notice as collateral for central bank borrowings and available at short notice to compensate for unexpected outflows of liquidity amounted to €26.6 billion at year-end 2012 (2011: €18.3 billion).

The requirements of the German Liquidity Regulation (Liquiditätsverordnung – LiqV) were met at all times by the affected units of HVB during the year to date. The funds available to HVB exceeded its payment obligations for the following month by an average of €29.7 billion for HVB in 2012 (31 December 2011: €29.9 billion) and €33.2 billion at 31 December 2012. This means that we are comfortably above the internally defined trigger.

Funding risk

The funding risk of HVB was again quite low in 2012 due to our broad funding base with regard to products, markets and investor groups. This ensured that we were able to obtain adequate funding for our lending operations in terms of volume and maturity within the framework of our limit system at all times. HVB obtained longer-term funding with a volume of €7.5 billion on the capital market during 2012.

At the end of December 2012, 101.3% (2011: 101.0%) of assets with an economic maturity of more than one year were covered by liabilities with an economic maturity of more than one year. Consequently, we do not expect to face any significant liquidity risk in the future. With their high credit quality and liquidity, our Pfandbrief covered bonds still remain an important funding instrument.

Stress test

Stress analyses based on various scenarios are carried out at regular intervals, enabling us to make projections on the impact of sudden disruptions on our liquidity position so that we can initiate appropriate management measures as early as possible.

We include Bank-specific, market-wide and combined scenarios when conducting our stress tests. The calculations at year-end 2012 showed that the available liquidity reserves were sufficient to cover the funding requirements over the minimum period demanded in each case.

Summary and outlook

The banking industry again felt the effects of the European sovereign debt crisis in 2012. Various measures taken by the European Union in particular did not calm the markets much until towards the end of the year. It is not yet possible to predict for how long and to what extent the financial markets will be impacted by the debt crisis in some European countries together with risks arising from changes in interest and exchange rates.

HVB put in a solid performance in 2012 in this challenging market environment, thanks to a good liquidity situation, a solid financing structure and the liquidity management measures it undertook. Based on our forward-looking risk quantification and scenario analysis, we expect our overall liquidity to remain very comfortable. HVB expects to see moderate economic growth in Germany in 2013 in response to a global economic recovery coupled with robust domestic demand. German exporters should benefit from restored dynamism in Asian emerging markets as well as a cyclical tailwind from the United States. Against this backdrop, it is safe to assume that the markets will tend to continue stabilising.

4 Operational risk

Definition

As a subsidiary of UniCredit S.p.A., HVB has assumed its definition of operational risk. In accordance with the Bank of Italy and in line with the German Solvency Regulation (Solvabilitätsverordnung – SolvV), operational risk is therefore defined as the risk of losses resulting from failed internal processes or systems, external events and human error. This definition also includes legal risk but not strategic risk or reputational risk.

Strategy

The risk strategy for operational risk forms part of the HVB Group risk strategy which is updated and adopted by the Management Board of HVB on an annual basis. The risk strategy aims to reduce operational risk to a reasonable level from an economic standpoint (under cost/benefit considerations), taking into account the defined risk appetite. To make the risk strategy more specific, Bank-wide and division-specific action areas are defined on the basis of external and internal factors.

Limit system

Operational risk forms part of the internal capital, with limits set for HVB accordingly.

Risk Report (Continued)

Reduction
The individual divisions are responsible for identifying, analysing and managing operational risk. Risk assessments are performed to identify operational risk. These represent the core of the operational risk management process and are carried out systematically in the form of workshops, interviews and questionnaires. The main goal is to implement measures aimed at reducing or avoiding significant losses. This also helps to generate more sustainable earnings.

In order to efficiently manage the reduction of risk, HVB applies a decentralised approach that allows the operational risk managers to shape the management of operational risk individually in their personal areas of responsibility, modify the approach to reflect unit-specific features and implement their own processes. When a risk is identified, it is recorded centrally and a detailed analysis of the risk is carried in order to allow appropriate measures to subsequently be drawn up. The measures are assessed under cost/benefit considerations and discussed with senior management in the event of significant risks. The action areas defined in the strategy serve to set particular focal points. Operational risk that is potentially grave or could seriously damage the Bank must be subject to planning measures that go beyond mere profitability concerns.

Risks identified by HVB are concentrated mainly in selling risks and risks arising from settlement and process management. In terms of product groups, we are exposed especially to risk related to derivatives, which results in part from the associated legal actions by customers.

From an organisational standpoint, there is a concentration of risk in CIB. Partly for this reason, in 2011 HVB carried out an analysis and review of the trading processes notably in its trading activities, with a special focus on the Bank's control mechanisms. These wide-ranging investigations compared the Bank's trading activities with leading market standards. The results of this analysis project identified action areas for improving the control mechanisms. All relevant activities were prioritised and realised as part of a dedicated implementation programme. A major part of these measures was already implemented during 2012. Furthermore, a similar project was started in the Global Transaction Banking unit. There were no instances of fraud in the Bank's trading activities in 2012.

Furthermore, the methods used to assess operational risk were refined in projects and the new product process during 2012. Cross-segment risk was also monitored more closely.

Measurement
An internal model built around the Advanced Measurement Approach (AMA model) is used to calculate the operational risk of HVB.

The AMA model is a UniCredit group-wide loss distribution approach. It is based mainly on internal and external loss data. The loss distributions are determined for each Basel loss event category. Scenario data are used to round out the data records in rare yet extreme impact cases. The model is developed by UniCredit. HVB checks the plausibility of the results on a regular basis and validates the model to ensure that it is appropriate.

The VaR is determined using a Monte Carlo simulation, taking account of correlations between the event categories as well as risk-reducing measures such as insurance. Finally, the VaR is modified to reflect the internal control and business environment factors.

Monitoring and controlling
Several instruments are used to monitor and control operational risk in HVB. Apart from the cost/benefit analysis, implementation dates are defined and monitored for the measures assigned to the identified risks. In order to facilitate prompt action in the event of a deterioration in the risk situation, risk traffic lights or indicators are assigned to all significant risks. Where a signal is triggered, risk-reducing measures can be initiated promptly in order to counter the risk situation.

Losses that occur are collected in a database. Internal and external loss events and risks are analysed, helping to draw up a risk profile of HVB.

Loss events and significant risks are reported to the Management Board, the RC and the Audit Committee of the Supervisory Board on a regular basis. Operational risk managers report losses and significant risks to their senior management locally on a quarterly basis. Significant risks and losses are additionally discussed with the senior management.

Employees from the Business Continuity Management, Outsourcing, Compliance and Legal departments perform a risk-managing functions. They have a risk controlling and monitoring function.

Business continuity management
The business continuity management function demonstrated its effectiveness and appropriateness in two genuine incidents. In both cases, the HVB crisis management team dealt with the situations so successfully that consequences could be minimised and losses avoided. The Bank's involvement in a simulation by the Bank of Italy together with internal exercises showed the handling of the processes in business continuity and crisis management is operating well.

Outsourcing and IT projects
Outsourcing involves the transfer of activities and processes to external service providers. This also involves the transfer of some of the operational risk, while contractual risks arising from the outsourcing arrangement remain with the Bank. The respective project team and defined functional units (operational risk managers, Compliance, Legal, and Business Continuity Management) used a standard procedure to classify outsourcing arrangements as "not material", "material without considerable significance" and "material with considerable significance". An in-depth risk analysis covering the other risk types as well as operational risk is performed for the outsourcing arrangements classified as material. A retained organisation (RTO) responsible for the arrangement is set up for each material outsourcing arrangement that manages the risks identified. The identified risks are incorporated in risk management in the processes defined for the risk types concerned. The operational risk managers and the central Operational Risk function help the project managers and heads of the RTOs to prepare and/or update the related risk analysis.

In order to make the presentation of the outsourcing and IT risk situation more transparent, work began in 2012 on expanding the existing methods and modifications to the required IT systems were commissioned.

The Outsourcing Tracking Office is the centre of competence for HVB responsible for managing the outsourcing process and enhancing the transparency of existing outsourcing activities. It forms part of the Global Banking Services (GBS) division.

The Bank's IT services are mostly provided by the Group company UniCredit Business Integrated Services S.C.p.A. (UBIS). The IT operating processes of HVB that were modified during the EuroSIG roll-out also required adjustments to be made to the internal control system for IT in order to be able to suitably monitor and manage all major IT risks. The development of appropriate metrics and review processes was started in winter 2011/2012 and implemented in various areas during the course of 2012. The control system will be expanded further and enhanced in 2013 in order to exploit the room for improvement identified in 2012 and incorporate findings from audits.

HVB completed an outsourcing deal classified as significant as defined by the MaRisk rules in 2012. The F&SME division opened a new sales channel via financial partner branches, which was subject at first to a test phase lasting several months. The purpose of the new distribution model analysed in depth in a new market process compliant with MaRisk is to facilitate fast, successful market entry in areas where HVB has not had a presence to date or only an insignificant presence. The financial partners are legally independent enterprises. They arrange services and products in the name of and for account of HVB and other product partners, and are managed by a RTO in the F&SME division.

Risk Report (Continued)

In 2011, various GBS units, including the back office handling the settlement of derivatives, were transferred from HVB to UniCredit Global Business Services GmbH, a wholly owned subsidiary of HVB. Following the transfer, it was necessary to fine-tune a number of service level agreements and controlling instruments. This transitional issues project to adjust the controlling processes for Financial Market Services was completed on schedule in June 2012.

Compliance risk and legal risk
Legal risk and compliance risk (risk related to compliance with rules and regulations) are subcategories of operational risk that might represent a risk to the earnings position due to violations of the law, rights, regulations, agreements, obligatory practices or ethical standards.

The Compliance department is responsible for the management of compliance risk. It focuses primarily on the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) and supporting rules and regulations. Among other things, Compliance carries out risk analyses at regular intervals. Besides the monitoring of employee transactions and the Bank's trading activities, this includes various second level controls for all units covered by Compliance. The results of the controls and audits are reported directly to the Management Board and the Supervisory Board together with compliance measures, problems and the current status of compliance in the Bank.

The Legal, Corporate Affairs & Documentation (LCD) department is responsible for managing legal issues for all HVB units. Excluded from this are tax law relating to the Bank's tax position, labour law (apart from legal disputes) and the legal areas falling under the heading of compliance.

Individual legal risks are discussed below:

Legal risks/arbitration proceedings
HVB and other companies belonging to the HVB subgroup are involved in various legal proceedings. The following is a summary of pending cases against HVB which have a value in dispute exceeding €50 million or are of significance for HVB for other reasons.

HVB is required to deal appropriately with various legal and regulatory requirements in relation to issues such as conflict of interest, anti-money-laundering laws, privacy and data-protection rules. Failure to do so may lead to additional litigation and investigations and subject HVB to damage claims, regulatory fines or other penalties. In many cases, there is a substantial uncertainty regarding the outcome of the proceedings and the amount of possible losses. These cases include criminal or administrative proceedings by the relevant authority and claims in which the petitioner has not specifically quantified the amounts in dispute. In all legal cases where it is possible to reliably estimate the amount of possible losses, and the loss is considered likely, appropriate provisions have been set up based on the circumstances and consistent with IAS accounting principles applied by HVB.

Medienfonds and other closed-ended funds lawsuits
Various investors in VIP Medienfonds 4 GmbH & Co. KG brought legal proceedings against HVB. HVB did not sell shares in the Medienfonds fund, but granted loans to all private investors for a part of the amount invested in the fund; HVB assumed specific payment obligations of certain film distributors with respect to the fund.

The investors in the Medienfonds fund initially enjoyed certain tax benefits which were later revoked by the tax authorities. On 30 December 2011, Munich Higher Regional Court (Oberlandesgericht) stated that the prospectus was incorrect concerning the description of tax risks, loss risk and the fund´s forecast. The court further holds HVB liable along with the promoter of Medienfonds for such errors. HVB has appealed to the German Federal Court of Justice (Bundesgerichtshof). Any final decision in this proceeding will affect only a few pending cases since a general settlement has already been reached with the vast majority of the investors. Besides the civil proceedings, the fiscal courts have not yet published a final decision regarding whether the tax benefits were revoked rightfully. HVB and other German banks involved in said proceedings have proposed a settlement.

Furthermore, there are a number of separate lawsuits from investors pending regarding other closed-ended funds (mainly media funds, but also other asset classes). The changed view of the fiscal authorities regarding tax benefits granted earlier often represents the economic background to the respective litigation. Among other things, the plaintiffs base their claims on alleged inadequate advice and/or on supposed errors in the prospectus. With their claims the investors demand restitution of their equity contribution and offer in return the transfer of the related fund share to the Bank.

Relating to one public fund with investment target in heating plants, a number of investors brought legal proceedings against HVB. In these cases some plaintiffs applied for a specific procedure pursuant to the Capital Markets Test Case Act (Kapitalanleger-Musterverfahrensgesetz). Munich Higher Regional Court will deal with the issue relating to prospectus liability. HVB is currently reviewing the application.

Real estate finance/financing of purchases of shares in real estate funds

In various cases customers dispute their obligation to repay their property loan agreements. According to the law and the opinion on this subject expressed in the German Federal Court of Justice's (Bundesgerichtshof) established practice, the customer has to prove the conditions for the lapse of his repayment obligation. Based on the experience gained to date, HVB assumes that legal risks will not arise from these cases.

Judgements from the German Federal Court of Justice also confirmed the already narrow conditions for a possible obligation on the part of HVB to give information and advice. Only in cases of institutionalised collaboration between the bank and persons acting on the part of the seller of the property, combined with deception of the customer by those persons, as well as in cases in which the bank has advised the customer on the acquisition of the property and received commission from the seller for selling the property the bank's liability cannot be ruled out. Based on its experience so far, HVB does not expect any negative effects for HVB in this respect either.

If a bank finances the purchase of shares in real estate funds for the borrower with a loan not secured by a real property lien, the borrower can – if the transaction is a so-called related transaction – contest the claim of the financing bank to repayment on the basis of objections which the borrower is entitled to assert against the seller or agent in the fund transaction on account of having received incorrect advice. Consequently, the bank has no claim against the customer to repayment of the loan if it utilised the sales organisation of the agent arranging the sale of shares in the fund, the loan was disbursed directly to the fund, and the investor was misled when purchasing the shares, or if the borrower has a right of rescission. The borrower in each individual case would have to demonstrate that these prerequisites were met. From today's standpoint, HVB expects these circumstances to apply, if at all, only in exceptional cases.

Lawsuits related to financial instruments

On account of the persistently unstable conditions of the financial markets, the number of complaints from customers who have invested in securities that have been negatively affected by the financial crisis remains unchanged at a high level. Some customers have taken legal action with respect to losses from securities transactions based on information that was allegedly not suitable for the relevant investor or on investment advice that was allegedly inappropriate with respect to the relevant investment or alleged negative performance of securities of other transactions.

Complaints and lawsuits by German customers whose derivative transactions have suffered losses or currently have a negative market value have also substantially increased. Among other things, the arguments made are that the Bank allegedly did not sufficiently inform the customer with respect to the relevant investment and potential risks related to such transactions. Generally, there has been a trend for investor-friendly judgments with respect to derivative-related lawsuits. Latest rulings confirm this trend but also demonstrate that the characteristics of the relevant product and the individual circumstances of each case are decisive. Thus the ruling of the courts is mixed whereas the application of Section 37a WpHG a.F. (Securities Trading Act earlier regulation) may be decisive.

Risk Report (Continued)

A class action has been filed against several members of an underwriting consortium, including UniCredit Capital Markets, Inc. (UCCM). This class action is based on mortgage-backed securities issued by Bank of America. HVB is of the opinion that the claim is unfounded and UCCM will defend itself accordingly.

Proceedings related to German tax credits

During the period from 2006 to 2008, a client of HVB entered into various transactions based on the expectation of receiving withholding tax credits on dividends from German equities which were traded around dividend dates.

In the context of a tax audit of the client, the German tax authorities demanded payment from the client of withholding tax credits that were previously granted. The demand, together with interest, amounted to approximately €124 million. The client and his tax advisor are challenging the tax authorities' position. The client has also made a claim against HVB and is requiring a full indemnity from HVB.

While the client has the primary liability to pay, the tax authorities also served a secondary liability notice upon HVB demanding payment of the approximately €124 million sum on the basis of alleged issuer liability for tax certificates. HVB has challenged the notice. HVB has also issued claims against the client requiring full indemnification.

In order to avoid the accruing of further potential interest and/or potential late payment penalties HVB and the client made preliminary payments to the competent tax authorities on a without prejudice basis. Up to now, an amount of around €120 million has been paid with respect to the amount stated in the liability notice. The dispute continues.

In a preliminary investigation against the client and others (including former and current employees of HVB) the Director of Public Prosecutions in Frankfurt am Main searched the Munich premises of HVB and its IT provider, among others. HVB is cooperating fully with the prosecutor and the tax police. There is a risk that HVB could be held liable for damages to the client in the civil proceeding or for payments to the tax authorities with respect to the outstanding claims of the tax authorities (especially on the basis of the liability notice and further interest and/or late payment penalties). In addition, HVB could be subject to other penalties, fines and profit claw backs, and/or criminal exposure.

In addition, HVB has notified the competent tax authorities of the possibility of certain proprietary trading of HVB undertaken close to dividend dates and related withholding tax credits claimed by HVB. In response to the customer case, the Management Board has already commissioned an internal investigation of the events with the assistance of external advisors; also in this context, the Supervisory Board of HVB has commissioned an internal review of such events by external advisors. The comprehensive investigation is supported by UniCredit without reservation. HVB expects to receive findings by mid-2013. An interim report by the external advisors carrying out the audit has concluded that there is evidence of trading patterns in the proprietary trading of HVB that are similar to the client case described above. In addition, the Management Board of HVB has been working with external advisors on all relevant aspects in the matter which includes a full review of the matters described above.

In the course of the open regular tax audits for past fiscal years the German Central Federal Tax Authority (Bundeszentralamt für Steuern) and the Munich tax authorities are currently especially examining such transactions close to dividend dates and related to withholding tax credits and refunds. HVB with the support of external advisors is actively reviewing all aspects as well as supporting the tax audit and has an ongoing dialogue and exchange of information with the relevant tax authorities.

Although German tax authorities have recently denied withholding tax credits in certain types of trades undertaken near dividend dates, there is no clear guidance from the highest German tax court on the tax treatment of such transactions. At this time, the impact of any review by the competent tax authorities is unknown.

In relation to the securities transactions described above, HVB could be subject to substantial tax and interest claims in relation to these matters, as well as penalties, fines and profit claw backs, and/or criminal exposure.

HVB is in communication with its relevant regulators regarding this matter.

Lawsuit in connection with Primeo-linked notes

HVB issued several tranches of notes whose potential return was to be calculated by reference to the performance of a synthetic hypothetical investment in the Primeo fund. The nominal value of the notes issued by HVB is around €27 million. Legal proceedings have been commenced in Germany in connection with the issuance of said Primeo-linked notes, which also named HVB as a defendant.

Securitisation – financial guarantee

In 2011, a financial institution filed suit against HVB with regard to a securitisation transaction. The parties dispute the validity of an early termination notice served by HVB on the financial institution in question. In December 2012, the English court decided that the transactions were still ongoing and thus still valid and binding upon HVB. HVB is currently considering whether to appeal this decision.

Insolvency of Landsbanki Islands

In 2008, HVB concluded money market deposit transactions with Iceland-based Landsbanki Islands, among others, which were duly settled. The Winding-up Board of Landsbanki has recently challenged in court the repayment at that time of the money borrowed and sued HVB for payment of a middle double digit million euro sum. HVB has filed statements demanding the dismissal of the claims.

Repo transactions

Two customers belonging to the same group of companies have recently filed claims against HVB with a total amount in dispute of €491.4 million (plus interest). The dispute results from the termination of their repo transactions with HVB. The claimants assert that the compensation paid by HVB to the clients following the clients' default was insufficient. The Bank is defending itself against said claims. In one of the two pending cases, a first-instance ruling has been issued partly going against the Bank; the Bank intends to appeal against this ruling.

Legal proceedings relating to the restructuring of HVB

Numerous (former) minority shareholders filed suits challenging the resolutions of the Extraordinary Shareholders' Meeting of HVB on 25 October 2006 (resolutions of approval) approving the sale and transfer of the shares held by the Bank in Bank Austria Creditanstalt AG (Bank Austria) and in HVB Bank Ukraine to UniCredit S.p.A. and the shares held in Closed Joint Stock Company International Moscow Bank (IMB) (renamed as ZAO UniCredit Bank, Moscow in December 2007, but still referred to as IMB below) and in HVB Bank Latvia AS (later renamed as AS UniCredit Bank, Riga) to Bank Austria Creditanstalt AG, and the branches of the Bank in Vilnius and Tallinn to AS UniCredit Bank, Riga, asking the court to declare these resolutions null and void. The former minority shareholders filed their lawsuits on the basis of alleged deficiencies of formalities in connection with the invitation and conduct of the Extraordinary Shareholders' Meeting of 25 October 2006 and the allegedly inadequate, too low purchase price paid for the units sold.

Risk Report (Continued)

In a ruling dated 31 January 2008, Munich Regional Court I declared the resolutions of approval passed at the Extraordinary Shareholders' Meeting on 25 October 2006 null and void solely for formal reasons. The court did not decide on the issue of the allegedly inadequate purchase price paid for the purchased units. HVB has appealed against this ruling.

The resolutions passed by the Extraordinary Shareholders' Meeting of 25 October 2006 were confirmed at HVB's Annual General Meeting of Shareholders on 29 and 30 July 2008. Suits were filed against said confirmatory resolutions which are mainly based on a too low and inadequate consideration.

In a ruling dated 29 October 2008, Munich Higher Regional Court suspended the appeal against the suits challenging the resolutions of approval of the Extraordinary Shareholders' Meeting of HVB of 25 October 2006 until such time as a final court decision is passed on the suits challenging the confirmatory resolutions adopted during the Annual General Meeting of HVB on 29 and 30 July 2008. On 10 December 2009 Munich Regional Court I dismissed the suits against the resolutions adopted at the Annual General Meeting on 29 and 30 July 2008, including the suits against the confirmatory resolutions adopted at this meeting. The ruling by Munich Higher Regional Court on 22 December 2010 in which the decision of Munich Regional Court was upheld, was suspended by the German Federal Court of Justice and the case has been remanded to Munich Higher Regional Court for further hearing and decision.

Other administrative proceedings

There has been increasing scrutiny of the financial institutions sector, especially by US authorities, with respect to combating money laundering and terrorist financing and enforcing compliance with economic sanctions. In March 2011 HVB received a subpoena from the New York District Attorney's Office (NYDA) relating to historic transactions involving certain Iranian entities. HVB has provided data in response to NYDA and the US Treasury Department Office of Foreign Assets Control (OFAC) and continues to cooperate with those authorities, inter alia, by conducting an ongoing review of accounts and transactions subject to the investigation. In June 2012, the US Department of Justice (DOJ) opened an investigation of OFAC compliance by HVB generally, with which HVB is also cooperating. Although we cannot at this time determine the form, extent or the timing of any resolution with the US authorities, the investigation costs, remediation required and/or payment or other legal liability incurred could have a material adverse effect on the net assets, operating results and/or cash flows of HVB in any particular period.

In recent years, alleged violations of US sanctions have resulted in financial institutions paying substantial fines, penalties or settlements to the US authorities, depending on the individual circumstances of each case.

Quantification and specification

The economic capital for operational risk is calculated for all AMA subsidiaries of HVB as a whole and then distributed using a risk-sensitive allocation mechanism.

The economic capital for operational risk at HVB, without taking account of the diversification effects between the risk types, amounted to €2.1 billion at 31 December 2012 (31 December 2011: €2.0 billion). Among other things, this slight increase in risk can be attributed to a higher number of expected loss events for selling risks and the related potential losses. The expansion of the group of companies included in consolidation also led to an increase in the economic capital.

Stress test

Operational risk is incorporated in the impact of macroeconomic scenarios as part of the cross-risk-type stress tests. This involves modifying the relevant parameters for the scenario of the internal model from the base scenario to a calculated stress value and then determining a stressed VaR.

Summary and outlook

The risk strategy defines the specific action areas that were identified to constantly raise awareness of operational risk in the Bank and to expand the management of operational risk. The control system will be extended and enhanced in 2013 particularly with regard to outsourcing- and IT-specific risks in order to collate the potential for improvement identified in 2012 and incorporate findings from audits.

5 Reputational risk

Definition

Reputational risk is defined as the present or future risk to the earnings or capital situation of the Bank due to a negative perception of the Bank on the part of its stakeholders. These include customers, creditors, rating agencies, employees, regulatory authorities and other interest groups, such as private associations (NGOs) or the media and others.

Above all the risk arising from a negative perception by the relevant stakeholders can make it harder for HVB to maintain existing business relationships and enter into new ones. Constant access to sources of finance could also suffer.

Reputational risk is multi-dimensional, can theoretically arise in any part of the Bank and reflects the perception of any market participant or stakeholder. A risk to our reputation can be limited by employing effective internal risk management processes.

The general definition of reputational risk is specified by the following criteria:

- Potential risk: Reputational risk can be viewed as a standalone source of risk, although it may also result from other (primary) risk types such as credit risk, operational risk or strategic risk. It arises primarily from the day-to-day business operations (customer-bank relationship) of HVB and other activities performed by the Bank, such as the roll-out of new products. At the same time, reputational risk also arises from banking operations (such as facility and environmental management).
- Event: Reputational risk becomes more specific when the expectations of a defined group of stakeholders are not met and they react negatively.
  Effect: Reputational risk is only deemed to exist when the reaction of stakeholders is likely to have a negative impact on HVB's earnings situation.

Strategy

In 2012, the Bank drew up a concept for enhancing the management and controlling of reputational risk. In addition to the assessment of reputational risk arising from new transactions and payments, further activities like projects, new products and new outsourcing arrangements will be included in the analyses in the future. Furthermore, the Bank's existing portfolios will be analysed for latent reputational risk starting in 2013. This will ensure that reputational risk is comprehensively assessed.

The objective for the Bank is to know the expectations of the various stakeholder groups and as far as possible to meet these expectations or avoid the corresponding reputational risk. To best achieve these objectives, UniCredit has devised a general Reputational Risk Governance Guideline. This has been calibrated for HVB Group and adopted by the Management Board of HVB.

The management of reputational risk is based on two pillars:

- Prevention: prevent the occurrence of reputational risks
- Damage limitation: respond as effectively as possible to any damage to reputation

Risk Report (Continued)

Reduction
Sector policies are applied in our lending activities alongside the general credit policy. The objective of these policies is to implement a particularly sensitive approach in certain industries, such as defence (armaments), nuclear power, mining and water infrastructure. This means not entering into certain business transactions in doubtful cases. These policies are based on international standards like the International Finance Corporation Performance Standards of the World Bank with the related Environment Health & Safety Guidelines or the provisions of the Equator Principles. Some of the policies are also employed for other types of business, including asset management (in particular in the selection of investment funds) or other forms of investment.

The policies are developed in the course of a dialogue with non-governmental organisations such as the World Wide Fund for Nature (WWF). The Bank's objective is to take into account the interests of environmental and human rights organisations in addition to the economic interests of its customers.

By applying these policies, HVB is attempting to take into account the expectations of stakeholders and so rule out the possibility of damage to the Bank's reputation.

Measurement
Out of methodological considerations, we do not view quantitative measurement as suitable for reputational risk because reputational risk involves decisions or estimates that are considered impossible to measure due to their rather unique nature. The resulting quantitative effects are essentially covered in other risk types, especially liquidity risk or business risk. Consequently, reputational risk is assessed primarily using qualitative methods. Instances that could represent a potential reputational risk are either covered by a corresponding sector policy or are handled as individual cases or grey areas and documented by the Sustainability Management department. Computer-aided documentation is not currently envisaged. We retained this process also in 2012. A separate Reputational Risk Report is submitted to the Bank's Management Board on a quarterly basis.

Monitoring and controlling
The strategic objectives and action areas with regard to reputational risk form part of the HVB Group risk strategy.

Since July 2009, the assessment and management of ongoing reputational risk arising from business transactions and other Bank activities has been performed by the Reputational Risk Council. The Reputational Risk Council decides on applications for the assessment of reputational risks as follows:
– No significant reputational risk was identified
  → the transaction or activity is therefore approved.
– A significant but acceptable reputational risk was identified
  → submission to the Group Committee responsible at UniCredit to obtain a non-binding opinion.
– An unacceptable reputational risk was identified
  → the transaction is therefore rejected.

Furthermore, the individual specialist departments are responsible for constantly tracking the national and international political and economic environment (such as environmental and social risk, embargos and sanctions, tax havens and so on) and drawing up appropriate measures regarding our strategic positioning as a result.

Summary and outlook
In 2013 all existing portfolios and processes will be subject to an additional regular review. In addition, appropriately expanded reporting to the RC and the Management Board has been implemented and reputational risk integrated in stress tests. The Operational Risk Control unit will have overall responsibility for the corresponding controlling in the future.

6 Business risk/strategic risk

Definition
Business risk
We define business risk as potential losses arising from unexpected negative changes in the business volume and/or margins that cannot be attributed to other risk types. It can lead to serious losses in earnings, thereby diminishing the market value of a company. Business risk can result above all from a serious deterioration in the market environment, changes in the competitive situation or customer behaviour, and changes in the cost structure.

Strategic risk
Strategic risk results from management being slow to recognise important trends in the banking sector or drawing false conclusions about these trends. This may result in fundamental management decisions that may prove to be disadvantageous in terms of the Bank's long-term ex post goals; in addition, some of them may be difficult to reverse.

Strategy
Business risk
The strategy for business risk is based on the direction of business over the medium term and is reflected in planning. As part of its cost and income responsibility, each business unit is responsible for the operational management of business risk.

The strategic focus in 2012 was on consistent pricing in line with risks, more intensive value creation for the customer to generate earnings and the further development towards a sought-after market player for strategic customer transactions and solutions in investment banking.

Measurement
Business risk
The economic capital arising from business risk is measured using a value-at-risk approach. For this purpose, income and cost volatilities are determined at divisional level and, with due consideration given to correlations, a value-at-risk is calculated that represents the possible fluctuations associated with business risk.

Strategic risk
Strategic risk is measured primarily by qualitative methods. For this purpose, we continually monitor the domestic and international political and economic environment while subjecting our own strategic positioning to an ongoing review process.

Monitoring and controlling
Business risk
The economic capital for business risk is calculated by the CEC unit and reported to the divisions, the CRO and the Audit Committee of the Supervisory Board.

The concentration of revenues in divisions, products or regions represents a substantial business strategy-related risk for the Bank. Risks from concentrations of revenues are addressed by such measures as regular monitoring because the avoidance of these risks is a key indicator of sustainable diversification and thus the ability of the business model to withstand crises. During the past years' difficult market environment, the broad diversification of HVB as a universal bank has proved particularly valuable.

Strategic risk
Strategic risk is monitored as part of the daily economic analysis and by the Management Board and its staff offices. Changes to the strategic parameters are discussed by the Management Board, and options are drawn up and implemented as appropriate. This is done during the weekly Management Board meetings as well as the Management Board conclaves that are held at least once a year.

Quantification and specification
Business risk
Various measures were employed at the start of 2012 to specifically enhance the data used to calibrate the business risk model.

The value-at-risk, without taking account of the diversification effects between the risk types, decreased by €0.1 billion to €0.7 billion during 2012. The fully diversified economic capital for the business risk of HVB amounted to €0.3 billion at the end of 2012 (31 December 2011: €0.6 billion). In addition to the effect arising from the update of the data series and the associated change in volatilities and correlations, this figure also includes the effect of the update of the correlation matrix between the risk types.

Risk Report (Continued)

Strategic risk

Risk from overall economic trends

The strategic orientation of HVB is described in the Financial Review. The Bank provides customer-oriented products in its key business areas CIB, F&SME and PB, concentrating on its core market of Germany. Against this backdrop, the overall economic trend in Germany as well as developments on the international financial and capital markets is of great importance for the assets, liabilities, financial position, and profit or loss of HVB.

Germany has the biggest economy in Europe. Together with France, it has taken the leading role in the latest sovereign debt crisis in all attempts to rescue the euro and alleviate the situation on the financial markets in Europe. Nevertheless, factors like political upheavals and the continued euro crisis do contain additional downside risks. The uncertainty surrounding the development of the global economy has become marked the longer the debt crisis in Europe has worn on, and the risk of a global banking and economic crisis has not been averted. German exports would be badly affected by a slowdown in the global economy, which in turn would have an impact on investment and also employment levels in Germany. This could lead to falling demand for credit. At the same time, banks are increasingly parking their liquidity with the European Central Bank (ECB).

Against this backdrop, HVB views itself as a solid commercial bank with excellent customer relationships, putting it in a good position to continue operating successfully on the German market. However, should the measures aimed at stemming the euro crisis fail to succeed or further turmoil roil the financial markets on account of insolvencies in the financial sector or a default by individual sovereign borrowers (such as Greece), this could have a negative effect on the assets, liabilities, financial position, and profit or loss of HVB.

Risks from the strategic orientation of HVB's business model

HVB is responsible for the regional management of the German market and is also the centre of competence for the markets and investment banking operations of the whole of UniCredit. This gives rise to a business model built upon several pillars. However, depending on developments on external markets, it cannot always be ruled out that imbalances in earnings contributions could arise.

The strategic objective of our CIB division is to be a leading, integrated European corporate and investment bank, offering our customers added value through specific relationship models geared to individual customers' needs. Despite the customer-oriented approach of our investment banking activities and the discontinuation of proprietary trading, income naturally remains relatively volatile. Although investment banking is very profitable in a normal market environment, it is subject to increased income risks in difficult market situations.

Risks from the consolidation of the banking market

Consolidation on the German and international banking and financial markets is continuing apace. As a result of the uncertainty surrounding the consolidation and concentration in the German banking sector, it remains unclear how potential earnings will be divided among competitors in the future and at what cost market share can be won. The assets, liabilities, financial position, and profit or loss of HVB could be affected by an associated increase in the market power of its competitors. HVB does, however, have a well-functioning and recognised business model, which proved its worth in the crisis, a strong capital base and adequate liquid funds that will enable it to actively exploit suitable opportunities quickly and flexibly.

Risks from modified competitive conditions in the German financial sector

The German financial services market as HVB's core market can readily be described as difficult for retail and corporate banking operations on account of the German banking system's three-pillar structure and strong competition. Overcapacity and market players which have different profitability requirements still exist on the retail side of the German market despite some mergers and acquisitions. In addition, the importance of retail banking activities is increasing rapidly, against the backdrop of the latest developments in the banking market (such as an increase in the significance of deposit-taking operations in response to Basel III), with more and more European and international players seeking to enter the German market. At the same time, uncertainty among customers remains relatively high, which means they are responding more sensitively to changes in sales pitches. The result is intensive competition for customers and market share, and HVB is facing a lasting trade rivalry.

The possibility cannot be excluded that a further intensification of competitive conditions in the financial sector could have a negative effect on the assets, liabilities, financial position and profit or loss of HVB.

Uncertainty about macroeconomic developments and risks from more stringent regulatory requirements

The macroeconomic developments in the European Union, and especially the discussions surrounding the deleveraging of heavily indebted countries and countries that have already been forced to utilise the EU's bail-out mechanism, form part of the daily economic analysis performed by HVB. Measures resulting from this, like public-sector haircuts on Greek sovereign bonds, had no tangible effect. Should it prove necessary to take further haircuts on sovereign bonds issued by for example Italy, Spain or Portugal, however, this could have a negative effect on the assets, liabilities, financial position, and profit or loss of HVB.

The new and planned regulatory environment for banks is complex, and its cumulative effect is currently hard to assess. The legal framework in general will become tighter as a consequence of the sovereign-debt and financial crisis.

Besides increasing the cost of capital, the cost of implementing regulatory requirements and for updating IT systems accordingly will also rise in this context. Thanks to our strong capital base, we believe we are well prepared for the greater capital requirements.

Risks from the introduction of new types of levies and taxes for the future stabilisation of the financial market and bank participation in the costs of the financial crisis

There are many approaches currently being discussed at the international level on how banks might contribute to the costs of future rescue measures or to the costs of the financial crisis. In Europe, bank levies already exist in Germany, Denmark, Austria, Hungary and the UK, being used in part to underpin stabilisation and restructuring funds, but mostly to generate budgetary funds. Furthermore, 11 EU states, including Germany, Austria, Italy and France, have agreed to introduce a tax on financial transactions. Similar taxes already exist in some countries, like France and the UK (stamp duty). Concrete laws are currently being proposed in a number of EU countries in a coordinated approach. Furthermore, the creation of an EU bank restructuring funds similar to the German restructuring fund is under discussion, to be resourced by funds from banks with cross-border activities. In addition to crisis prevention and support in the event of future bank crises, these EU measures are intended to make the

Risk Report (Continued)

financial sector bear some of the cost of the crisis. The measures also have a political purpose. The bank levy was charged to HVB for the first time in 2011 in Germany, Austria and the UK. The effects of the other tax initiatives remain to be seen.

Risks from a change in HVB's rating
HVB continues to enjoy a solid rating in the "Single A" range from the external rating agencies Standard & Poor's (S&P), Moody's and Fitch. As the financial and euro crisis has progressed, however, the outlook announced by S&P and Moody's has changed such that the possibility of a downgrade cannot be excluded. This would be based on a change in the parameters used by the rating agencies to rate HVB (especially the rating of UniCredit). Such a downgrade could make it harder to tap capital markets, with higher funding costs having a negative effect on the assets, liabilities, financial position and profit or loss of HVB.

Stress test
The impact of macroeconomic scenarios (such as Greece leaving the eurozone) on business risk is analysed as part of the cross-risk-type stress tests. This quarterly analysis provides information on the lower earnings than in base scenario that would arise should the scenario materialise. This is used as the basis for determining the change in the VaR.

Summary and outlook
The European sovereign debt crisis again had a considerable impact on the banking industry in 2012. Various measures taken to date notably by the European Union only served to calm the markets to a limited extent. It is not possible to predict for 2013 and later years how long and how badly the financial markets will be affected by the debt crisis in certain European states in particular and by risk arising from interest and exchange rate fluctuations.

HVB performed well in this challenging market environment in 2012. This was underpinned by a strong liquidity base, a solid funding structure and the measures undertaken to manage liquidity. Building on our forward-looking risk quantification and scenario analysis, we believe that our liquidity base will continue to remain very comfortable in the year 2013.

7 Other risks

The Bank groups together the risk arising from its own real estate portfolio and the risk arising from its shareholdings and financial investments under other risks. These two risk types are only discussed briefly on account of their relatively low share of internal capital. The definitions of the two risk types can be found under "Risk types".

Risks arising from our own real estate portfolio
A fundamental distinction is made in real estate risk between strategic and non-strategic real estate, although cost optimisation was the main focus across both portfolios in 2012. Besides the cost-optimised provision of real estate for HVB's banking activities, the operating and utilisation strategy for strategic real estate in 2012 consisted primarily of preferring Bank-owned properties over third-party properties. The medium- to long-term goal for the non-strategic real estate portfolio was again to sell the entire holding while protecting the carrying amounts in 2012.

Until 2011, a VaR approach based on the market values or carrying amounts of the individual properties and the volatilities of real estate indices was used to calculate real estate risk. In order to increase the information content of the indices by applying a more granular mapping method, the property type has been included since 2012 in addition to the geographical location. As a result of this, the individual properties are allocated to 20 real estate indices of various (and in some instances composite) segments. Since the beginning of 2012, the VaR has comprised a general VaR (calculated using the old method) and a specific VaR that was not analysed under the real estate risk model prior to 2011.

The CEC department determines the economic capital for real estate risk and reports this to the divisions, the CRO and the Audit Committee of the Supervisory Board.

The value-at-risk, without taking account of the diversification effects between the risk types, increased by €12 million during 2012 to total €46 million at year-end 2012. The figure is based on a portfolio worth €329 million, consisting of 77.5% strategic properties and 22.5% non-strategic properties. The economic capital for real estate risk at HVB taking into account diversification effects totals €33 million (31 December 2011: €21 million). This figure also includes the effects arising from a change in methodology and the update of the correlation matrix. The real estate portfolio of HVB is assigned primarily to Hamburg, which accounts for 59% of the total.

Again for 2013, it is planned to further reduce the portfolio of non-strategic real estate. The situation on the real estate markets will again depend on economic developments in 2013. Should growth slow, the demand for space might decline as well. The demand from investors for core real estate is continuing to increase. It remains to be seen to what extent this rising demand will transfer to other classes of real estate.

Risks arising from our shareholdings/financial investments

All the investments to be included in the risks arising from our shareholdings/financial investments are either considered strategic and allocated to a division or competence line, or deemed non-strategic and can thus in principle be eliminated through disposals, mergers or liquidation. In 2012, the number of strategic investments remained largely constant. There are no plans for major changes. Additional investments in private equity funds and co-investments/direct investments were also made only on a highly selective basis with the objective of achieving an appropriate risk/return balance with a broadly diversified portfolio. The reduction of the non-strategic portfolio is progressing as planned.

A distinction is made in risk measurement between listed and unlisted investments. In the first instance, the VaR is determined on the basis of market values, volatilities and correlations of the corresponding shares. In the second instance, fluctuations in the market value of individual investments are simulated as part of a Monte Carlo simulation and the ensuing losses aggregated to form the portfolio VaR. The same macroeconomic correlations are assumed in the simulation as in the credit portfolio model. Existing residual payment commitments to private equity funds are included in the calculation of investment risk.

CEC calculates the economic capital for shareholdings and financial investments, and reports it to the divisions, the CRO and the Audit Committee of the Supervisory Board. In line with the risk strategy, quarterly risk reporting also includes a comparison of the actual and budget figures.

The value-at-risk, without taking account of the diversification effects between the risk types, increased by €0.2 billion to €0.9 billion during 2012. The fully diversified economic capital of HVB amounts to €0.7 billion (31 December 2011: €0.4 billion).

As in 2012, the Bank will continue to dispose of non-strategic shareholdings in 2013. It will also look into fresh investments in line with its business strategy and the current market environment, provided these complement our structure and our business priorities, and generate added value for our Bank and our Group.

ICS – Internal Control System

Internal control system with regard to the financial reporting process

Definition and objectives

Section 315 (2) No. 5 of the German Commercial Code (Handelsgesetzbuch – HGB) requires capital-market-oriented companies as defined in Section 264d HGB to describe the main features of the internal control system (ICS) and risk management system (RMS) with respect to the financial reporting process.

The RMS is formulated in broad terms and relates above all to strategic management, the identification, quantification, assessment, monitoring and active management of risk. The ensuing coordination of risk-management, risk-controlling and risk-monitoring processes is presented in this Risk Report in the present Management Report. The respective risk types are described in detail in the sections entitled "Risk types" and "Risk types in detail".

With regard to the financial reporting process, the ICS encompasses the policies, processes and measures needed to ensure the financial reporting process and compliance with the applicable legal provisions as well as risk hedging and the recording of valuation units. They ensure that internal and external financial reports are correct and reliable and that the assets, liabilities and equity are classified, recognised and measured.

The purpose of the ICS in the financial reporting process is to implement controls that ensure with an adequate degree of certainty that the annual financial statements together with the Management Report and the Business Situation and Trends are prepared in compliance with regulations despite the identified risks.

The method used for the introduction and risk assessment of processes is based on the international "Internal Control – Integrated Framework" standard issued by the Treadway Commission's Committee of Sponsoring Organizations (COSO) and thus on a solid methodological framework. The main task in this context is to define specific objectives to facilitate a control system and to monitor the effectiveness of the control system on this basis. The following objectives are pursued:

– Completeness: All transactions have been recorded and all assets and liabilities included in the financial statements.
– Measurement: The assets, liabilities and transactions are disclosed at their correct amounts in the financial reports.
– Presentation and disclosure: The financial reports are correctly classified and discussed with regard to recognition, structure and disclosures in the notes to the financial statements, and comply with the legal requirements.

However well the ICS is structured for the accounting process, the documented controls carried out for the relevant processes can provide no absolute certainty regarding the avoidance of mistakes or fraudulent actions. In this context, the costs and spending on the ICS must be in acceptable proportion to the benefits achieved.

Responsibilities for the ICS in connection with financial reporting

Responsibilities of the Management Board and Supervisory Board

The Management Board manages the Bank under its own responsibility and works with the Bank's other governing bodies and committees in a spirit of trust in the best interests of the Bank. The related responsibilities include overall responsibility for the preparation of the annual financial statements and the Management Report. The Management Board states that, to the best of its knowledge and in accordance with applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the company. The Management Board determines the extent and orientation of the ICS specifically geared to the Bank under its own responsibility, taking measures to refine the systems and adapt them to changing conditions. It is supported in this task by the Internal Control Business Committee (ICBC) Germany, notably in terms of the consolidation and monitoring of all ICS-related projects and measures. Sets of values such as the Integrity Charter and the Code of Conduct, and compliance rules have been implemented in all UniCredit countries for many years, and hence also in HVB Group. These values form the basis for responsible action on the part of employees involved in the financial reporting process. Despite all of the risk-reducing measures set up within the framework of the ICS, even systems and processes designed to be appropriate and functional cannot ensure absolute certainty in the identification and management of risk.

Responsibility for the financial reporting process and, in particular, for the preparation of the annual financial statements rests with the CFO organisation. The CRO is responsible for measuring financial instruments and receivables with support from the CFO. Global Banking Services (GBS) is responsible for ensuring the availability of the IT systems required for the financial reporting process.

It is the task of the Supervisory Board to monitor and regularly advise the Management Board as it conducts its business. It is directly involved in decisions that are of fundamental importance. To support it in the performance of its duties, the Supervisory Board set up an Audit Committee made up of four of its members tasked among other things with monitoring the financial reporting process. The Audit Committee looks at the development of the assets, liabilities, financial position and profit and loss, particularly in connection with the interim reports, half-yearly financial reports and annual financial statements on a regular and ongoing basis. To monitor the effectiveness of the ICS, the Audit Committee also examined these systems and the planned improvements in detail at two of its meetings in 2012 on the basis of documents and verbal explanations provided by the Management Board. In the process of preparing the annual financial statements, the Supervisory Board is responsible for approving the annual financial statements. To enable these tasks to be performed, the financial statement documents are submitted to the Supervisory Board complete with the Management Board's proposal for appropriation of profits together with the Auditors' Report. The Audit Committee examines these documents in great detail during a preliminary audit. At the preparatory meeting of the Audit Committee and at the subsequent Supervisory Board meeting devoted to the annual financial statements, the independent auditor reports on the material findings of the audit of the annual financial statements, specifically including any significant weaknesses of the ICS in connection with the financial reporting process identified during the audit. In addition, the Management Board explains the annual financial statements in detail at the meeting of the Audit Committee and at the subsequent Supervisory Board meeting devoted to the financial statements. The chairman of the Audit Committee also reports to that meeting on the results of the Audit Committee's audit of the documents. Based on the written reports and verbal explanations, the Supervisory Board determines at its meeting devoted to the financial statements whether it concurs with the findings of the audit by the independent auditor and whether objections are to be raised after its own examination of the annual financial statements, the Management Report and the proposal for the appropriation of net profit, and whether it approves the annual financial statements prepared by the Management Board.

Position and function of Internal Audit

Internal Audit

The Internal Audit department is a process-independent instrument of the Management Board and is required to report directly to it. According to its internal regulations, the Management Board bears the overall responsibility for setting up the Internal Audit department and ensuring that it functions properly. In 2012, operational responsibility for the audit function was assigned to the Board Spokesman (CEO).

The Internal Audit department is responsible for the risk-oriented, process-neutral auditing and assessment of all activities and processes, regardless of whether they are outsourced or not. The outsourced activities may be audited by the internal audit function of the service provider.

For this purpose, Internal Audit carries out a risk-based selection of individual operating and business processes in order to set scheduling priorities. The German Minimum Requirements for Risk Management (MaRisk) stipulate that all operating and business processes must be audited at least every three years – if deemed useful and appropriate. In the case of activities and processes deemed to be of lower priority in terms of risk, it is permissible to deviate from the three-year cycle. Operating and business processes subject to especially high levels of risk are audited at least once a year. If the need arises or it is instructed to do so, the Internal Audit department may also carry out tasks in subsidiaries, taking into account the findings of any audits performed by internal audit departments in those subsidiaries.

ICS – Internal Control System (Continued)

Close cooperation is maintained with the Internal Audit department of UniCredit S.p.A., including joint audits, for example. HVB's Internal Audit department is involved on a regular basis in drawing up corporate audit regulations.

The Bank's Internal Audit department must audit and assess the following areas in particular:
– functionality, effectiveness, economic efficiency and appropriateness of the internal control system
– applications, functionality, effectiveness and appropriateness of the risk management and risk control systems, reporting, information systems, and finance and accounting
– compliance with legal and regulatory standards as well as other regulations
– observation of internal operational guidelines, ordinances and regulations
– correctness of operational and business processes
– regulations and measures to protect assets

While audit reports are submitted to audited units and the responsible Management Board members, the Management Board as a whole receives an annual report which includes a comprehensive overview of audit findings as well as major deficiencies, severe deficiencies and particularly severe deficiencies as defined in the MaRisk rules, the measures taken, and their current status.

The Board Spokesman and the head of the Internal Audit department give quarterly presentations at meetings of the Audit Committee of the Supervisory Board to report on the main findings of the audits carried out by Internal Audit and other significant aspects of its work.

Tasks and responsibilities of the independent auditors

The Supervisory Board commissioned the independent auditors KPMG AG Wirtschaftsprüfungsgesellschaft to audit the annual financial statements, including the account records, the Management Report and the risk early warning system in accordance with Section 91 of the German Stock Corporation Act (Aktiengesetz – AktG). In addition, the independent auditors were commissioned to audit the financial statements prepared by the Bank as well as the report by the Management Board on relations with affiliated companies in accordance with Section 313 AktG.

Italian law requires the independent auditors to be alternated every nine years. Consequently, UniCredit S.p.A. appointed Deloitte & Touche to act as independent auditors for UniCredit S.p.A. following an extensive selection process and recommended to its subsidiaries that they similarly propose Deloitte & Touche to act as their independent auditors. By way of a resolution adopted by the Shareholders' Meeting on 3 August 2012, HVB elected Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft (Deloitte) based in Munich to act as independent auditor of the annual financial statements for the 2013 financial year.

Organisation and components of the internal control system and risk management system in connection with financial reporting

Organisational structure and tasks of the CFO organisation

For the purposes of the financial reporting processes, the Chief Financial Officer (CFO) organisation is essentially broken down into the following areas, from which the responsible Management Board member can draw on staff with the required skills and experience:
– A number of departments within the **Accounting, Tax and Shareholdings (CFF)** unit are assigned to deal with financial reporting processes. The financial reporting for HVB together with the financial reporting for the markets and investment banking activities are carried out by the CFA unit. In addition, this department has functional responsibility for the financial reporting systems used at HVB. At the same time, the CFA unit is responsible for fundamental accounting questions under IFRS. Furthermore, it prepares the external reporting in the annual reports for HVB and HVB Group. The Accounting (CFA4) and Accounting Markets (CFA3) units and the Foreign Branches department (CFM) are responsible for accounting in the narrow sense. The Accounting Markets unit is responsible for the financial reporting on the markets and investment banking activities of HVB in Germany. The local accounting units in the foreign branches of HVB report to CFM. Responsibility for the management and administration of participating interests rests with the Shareholdings (CFS) department. The Tax Affairs (CFT) department is responsible for all tax-related concerns of HVB, including its foreign branches. The Regulatory Reporting (CFR) department submits reports to the banking supervisors. In particular,

this includes the Common Solvency Ratio Reporting (COREP) report based on the German Solvency Regulation (Solvabilitätsverordnung – SolvV) and the report compliant with the German Liquidity Regulation (Liquiditätsverordnung – LiqV). This department is also responsible for monitoring and documenting large loans and loans to executives.
- For purposes of the financial reporting process, the **Data Governance (CFG)** department is essentially responsible for the operation, refinement (in conjunction with the functional units responsible and the German branch of UniCredit Business Integrated Solutions S.C.p.A. (UBIS)) and quality assurance of the accounting and controlling systems. Furthermore, this unit also has responsibility for the implementation of various projects (such as the creation of a data warehouse).
- **Finance** notably deals with liquidity management in close cooperation with the front office units and Asset Liability Management. Its tasks are described in the section of the Risk Report entitled "Divisions and committees".
- **Regional Planning & Controlling (CFC)** is tasked with central business management, cost controlling and equity capital management. Overall, this department is responsible for the preparation of income budgets and income projections.
- Furthermore, the **Planning & Analysis (CPA)** unit and the division-related controlling departments for the operational divisions CIB, F&SME and PB are assigned to CFC.

Process of accounting and preparing HVB's financial statements

HVB uses SAP's standard SAP Balance Analyzer and Business Warehouse software to prepare its annual financial statements. The SAP Balance Analyzer concept is based on the mainly automated uploading of individual transaction data from the upstream systems relevant to financial reporting (sub-ledger).

The Accounting department collates the data relevant to the financial statements. It reconciles the positions delivered by the upstream systems, automatically checks the totals against the general ledger account balances, corrects errors and performs manual bookings of one-off transactions and closing entries. Adjustments and closing entries are entered by authorised persons in the CFA and CFM units in compliance with the principle of dual control. The figures presented in the balance sheet and income statement are validated using deviation analysis and on the basis of non-recurring effects in an ongoing process that is carried out over the entire course of the year under review as part of the process of preparing the monthly and quarterly financial statements.

Data from the foreign branches are posted and formatted at the individual branches and submitted to the accounting system via the central interface, validated centrally and supplemented with closing postings.

Accounting for HVB's trading transactions and securities portfolios in Germany is carried out by an independent department within the CFA organisation. This department is also responsible for the related valuation and booking standards as well as analysing and commenting on the results and coordination with the Product Control unit, which is assigned to the Regional Planning & Controlling department. The relevant transaction data are delivered by the systems managing the respective portfolios. The Risk Control department, which reports to the CRO, checks transactions to ensure compliance with market pricing. The allocation of transactions to the holding categories is governed by the orientation of the operating unit. Risk control staff are responsible for checking the valuations of the trading portfolios in the front office systems. Depending on the market parameters and asset classes, market data are supplied both by the trading departments and external sources such as Bloomberg, Reuters and MarkIT. In accordance with the separation of functions, the back office handles the further processing of HVB trades. Since October 2011, these tasks have been outsourced to UniCredit Global Business Services GmbH (UGBS), which reports to GBS. This ensures that the processing of trades is independent of the Trading department.

To check valuations carried out by the Trading department, the Risk Control department validates the market data used, independently of the Accounting department, and carries out regular reviews of valuation models. Risk Control checks on a monthly basis the trading income calculated for purposes of financial reporting against the result of the economic income statement that serves as the basis for the daily information provided to the Management Board members.

ICS – Internal Control System (Continued)

Under the new product process, all concerned departments are involved to the extent that they have veto rights at the least and are authorised to enforce adjustments up to and including the termination of the new product process.

Responsibility for checking, creating and adjusting specific allowances for losses on guarantees and indemnities rests with the respective restructuring and workout units. When an impairment trigger occurs, the relevant restructuring and workout units are responsible for assessing the risk and setting up and adjusting allowances. The exposures involved are transferred in accordance with defined criteria. Since the end of 2011, the allowances have been determined and set up in the IME system an automated process based on cash flows (taking into account the relevant Basel II parameters) for exposures up to a ceiling of €2 million (competence value 1) for each exposure group. The restructuring or workout specialist is responsible for calculating any required allowance within the framework of impairment measurement. When determining the amount of an allowance, the following factors specified in the Operating Guidelines must be taken into account:

- the borrower's financial situation (liquidity, income and cash flow situation, ability to service debt and equity position)
- future opportunities and risks in relation to the extent to which restructuring is deemed possible
- anticipated repayment (e.g. agreed amortisation payments over a limited period)
- collateral values

The proposal by the responsible restructuring or workout specialist to create a specific allowance must be submitted to the appropriate lending approval authority or the Loan Loss Provision Committee (LLP Committee) for approval. A risk provision report serves to keep the Management Board regularly informed about the current risk provision situation and as required by current developments.

The Bank uses the IBV system and the IME system that was rolled out at the end of 2011 to record and manage the approved risk provision amounts. It is used for the preparation and final booking of risk provisions by Accounting when drawing up the financial statements.

General allowances pursuant to the German Commercial Code and portfolio allowances pursuant to IFRS accounting rules are calculated centrally by the Accounting department together with CRO Central Functions.

The calculation and approval of provisions in the non-lending business is carried out in accordance with the specified approval authority regulations and is regulated under central operating guidelines from the Accounting department. The final booking of provisions and the assessment to ensure compliance with accounting standards is carried out centrally by the Accounting department.

Technical system support for the Accounting department and especially in connection with preparing the financial statements has been outsourced to the German branch of UniCredit Business Integrated Solutions S.C.p.A. (UBIS), the subsidiary of UniCredit responsible for IT (formed on 1 January 2012 by the merger of UniCredit Global Information Services S.C.p.A. (UGIS) and UniCredit Business Partners S.C.p.A. (UCBP)). The outsourced activities are monitored from a technical viewpoint by Regional Business Services (CFG1), a department which reports to the CFO, with the Finance Tools central service unit within CFG. The technical support processes of the central service unit are governed by operating guidelines. UBIS carries out the back-up and archiving of data from accounting-related application systems in accordance with Section 257 HGB in conjunction with Sections 238 and 239 HGB and the German Generally Accepted Accounting Principles (GAAP) under the supervision of CFG.

The required protection against unauthorised access and compliance with the principles of functional separation when using the Bank's financial reporting application systems under the responsibility of the CFO are ensured notably by requesting and periodically monitoring individual rights in the ELSA authorisation controlling system. For SAP rights, special approval is provided across the board by the functional units responsible for the application. The use of individual rights automatically implies a time restriction of no more than one year.

The involvement of external third parties in the technical process of preparing the financial statements is limited primarily to the valuation of, and accounting for, pension provisions by the external service provider Aon Hewitt GmbH.

Process documentation

As a UniCredit company, HVB Group is obliged to comply with Law 262 ("the Savings Law" – Law 262/2005, passed in Italy in 2005 and amended by Legislative Decree 303/2006, based on the Sarbanes-Oxley Act in the United States).

In conjunction with the requirements under Law 262 and the legal requirements under the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG Corporate Governance), a number of financial reporting processes were already documented in the course of implementing the internal control system (ICS) at HVB. The corresponding process descriptions include detailed presentations of both the individual process steps and the organisational units affected by the processes. At the same time, risk and control are defined, together with their assessment, and documented.

The focus of risk and monitoring analysis is on identifying and evaluating the risks relevant to financial reporting. Identified risk potential is sufficiently reduced through defined control steps. Periodic random sampling serves to document the implementation of these controls and provide adequate records. If the controls do not sufficiently reduce risks, or no controls are in place, suitable measures are initiated to eliminate the identified deficiencies. The timely implementation of these measures is reviewed on a quarterly basis.

New processes are subject to half-yearly reviews in terms of organisational changes or changes in content by the persons responsible for the process. If necessary, the documentation is modified and a new risk assessment performed. In addition, the completeness of the process documentation is checked on an ongoing basis and, if necessary, further relevant processes added and assessed, and integrated into routine ICS operations. To support the Management Board in the ongoing development and efficient monitoring of the ICS with regard to the financial reporting process, CFA7 (Internal Control System – CFO) within the CFO organisation is specifically tasked with this.

Continuous updates of the ICS and RMS

During the course of further roll-out of the Target IT systems in the Markets unit in the CIB division, the migrations relating to the trading systems were advanced for the locations in Asia and the United States planned for 2012. For the CFO division, additional locations and product groups for the Markets unit were linked to the established sub-ledger, and further improvements were made in the daily income statement calculations and the reconciliation of profit/loss items as per cost accounts and financial accounts. These adjustments served to reduce operational risk across the Bank's entire value chain.

To ensure the greatest possible efficiency in the process of preparing the annual financial statements, detailed timetables are drawn up on a regular basis showing precise dates for the individual process steps. These timetables serve to ensure the timely completion of financial reporting tasks and to identify the dependencies between the individual process steps and the units involved.

When changes are made to the legal provisions and regulations for financial reporting, they must be assessed to determine what consequences, if any, they have for the financial reporting processes. The CFF unit dedicated to fundamental accounting issues is responsible for dealing with the content of such changes. In the case of amendments or new regulations that would have a substantial impact on the accounting processes, a corresponding project is set up to cover all measures such as IT adaptations, working procedures and booking instructions across all departments.

Income Statement of UniCredit Bank AG

For the year ended 31 December 2012

Expenses

(€ millions)

				2012	2011
1	**Interest payable**			3,689	4,935
2	**Fees and commissions payable**			418	514
3	**Net expense from the held-for-trading portfolio**			—	365
4	**General administrative expenses**				
	a) payroll costs				
	aa) wages and salaries	1,389			1,402
	ab) social security costs and expenses for				
	pensions and other employee benefits	312			299
			1,701		1,701
	including: for pensions				
	€125 million				(113)
	b) other administrative expenses		1,718		1,699
				3,419	3,400
5	**Amortisation, depreciation and impairment losses**				
	on intangible and tangible assets			181	119
6	**Other operating expenses**			256	526
7	**Write-downs and impairments for receivables and**				
	certain securities as well as additions to provisions				
	for losses on guarantees and indemnities			1,912	2,289
8	**Write-downs and impairments on participating**				
	interests, shares in affiliated companies				
	and investment securities			—	—
9	**Expenses from absorbed losses**			6	21
10	**Extraordinary expenses**			22	22
11	**Taxes on income**			533	79
12	**Other taxes, unless shown under**				
	"Other operating expenses"			11	70
13	**Net income**			1,462	1,017
Total expenses				**11,909**	**13,357**

Income (€ millions)

		2012	2011
1 Interest income from			
a) loans and money market operations	5,254		6,317
b) fixed-income securities and government-inscribed debt	1,342		1,840
		6,596	8,157
2 Current income from			
a) equity securities and other variable-yield securities	58		580
b) participating interests	103		127
c) shares in affiliated companies	253		295
		414	1,002
3 Income earned under profit-pooling and profit-and-loss transfer agreements		106	41
4 Fees and commissions receivable		1,574	1,887
5 Net income from the held-for-trading portfolio		1,048	—
6 Write-ups on bad and doubtful debts and on certain securities as well as release of provisions for losses on guarantees and indemnities		1,783	1,344
7 Write-ups on participating interests, shares in affiliated companies and investment securities		52	120
8 Other operating income		336	806
9 Net loss		—	—
Total income		**11,909**	**13,357**
1 Net income		1,462	1,017
2 Withdrawal from retained earnings			
a) from legal reserve	—		—
b) from the reserve for shares in a controlling or majority interest-holding company	4		—
c) from other retained earnings	1,000		10
		1,004	10
3 Transfer to retained earnings			
a) to legal reserve	—		—
b) to the reserve for shares in a controlling or majority interest-holding company	—		10
c) to other retained earnings	4		—
		4	10
4 Profit available for distribution		2,462	1,017

Balance Sheet of UniCredit Bank AG

at 31 December 2012

Assets (€ millions)

		31/12/2012	31/12/2011
1 Cash and cash balances			
a) cash on hand	571		477
b) balances with central banks	14,840		3,603
including: with Deutsche Bundesbank			
€13,399 million			(2,860)
		15,411	4,080
2 Treasury bills and other bills eligible			
for refinancing with central banks			
a) Treasury bills and zero-interest treasury notes and			
similar securities issued by public authorities	—		—
including: eligible for refinancing with			
Deutsche Bundesbank			
€— million			(—)
b) bills of exchange	—		—
including: eligible for refinancing with			
Deutsche Bundesbank			
€— million			(—)
		—	—
3 Loans and receivables with banks			
a) repayable on demand	16,222		19,474
b) other loans and receivables	26,611		31,458
		42,833	50,932
including: mortgage loans			
€— million			(—)
municipal loans			
€233 million			(348)
against pledged securities			
€388 million			(132)
4 Loans and receivables with customers		96,959	108,564
including: mortgage loans			
€40,990 million			(44,031)
municipal loans			
€11,722 million			(18,098)
against pledged securities			
€3 million			(10)
Amount carried forward:		155,203	163,576

Liabilities

(€ millions)

			31/12/2012	31/12/2011
1 Deposits from banks				
a) repayable on demand		14,303		13,632
b) with agreed maturity dates or periods of notice		34,315		48,388
			48,618	62,020
including: registered mortgage bonds in issue				
€608 million				(719)
registered public-sector bonds in issue				
€288 million				(408)
bonds given to lender as				
collateral for funds borrowed:				
registered mortgage bonds				
€1 million				(1)
and registered public-sector bonds				
€— million				(—)
2 Deposits from customers				
a) savings deposits				
aa) with agreed period of notice of three months	14,402			13,365
ab) with agreed period of notice				
of more than three months	157			203
		14,559		13,568
b) registered mortgage bonds in issue		7,365		8,168
c) registered public-sector bonds in issue		3,381		3,605
d) other debts				
da) repayable on demand	57,826			51,477
db) with agreed maturity dates or periods of notice	34,005			39,792
including: bonds given to lender as				
collateral for funds borrowed:				
registered mortgage bonds				
€4 million				(5)
and registered public-sector bonds				
€8 million				(18)
		91,831		91,269
			117,136	116,610
Amount carried forward:			165,754	178,630

Assets

(€ millions)

			31/12/2012	31/12/2011
Amount brought forward:			155,203	163,576
5 Bonds and other				
fixed-income securities				
a) money market paper				
aa) issued by public authorities	3			3
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€— million				(—)
ab) issued by other borrowers	1,974			3,260
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€195 million				(—)
		1,977		3,263
b) bonds and notes				
ba) issued by public authorities	16,478			16,689
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€16,355 million				(16,639)
bb) issued by other borrowers	29,025			34,659
including: those eligible for collateral for				
Deutsche Bundesbank advances				
€21,261 million				(25,663)
		45,503		51,348
c) own bonds		1,390		2,292
nominal value €1,388 million				(2,277)
			48,870	56,903
6 Equity securities and other variable-yield securities			1,192	1,227
6a Held-for-trading portfolio			143,531	167,239
7 Participating interests			978	1,112
including: in banks				
€22 million				(22)
in financial service institutions				
€— million				(—)
8 Shares in affiliated companies			2,722	2,960
including: in banks				
€1,148 million				(1,148)
in financial service institutions				
€426 million				(426)
Amount carried forward:			352,496	393,017

Liabilities

(€ millions)

			31/12/2012	31/12/2011
Amount brought forward:			165,754	178,630
3 Debt securities in issue				
a) bonds				
aa) mortgage bonds	12,877			17,067
ab) public-sector bonds	3,346			3,484
ac) other bonds	5,185			6,216
		21,408		26,767
b) other debt securities in issue		—		—
including: money market paper				
€— million				(—)
acceptances and promissory notes				
€— million				(—)
			21,408	26,767
3a Held-for-trading portfolio			132,327	152,843
4 Trust liabilities			31	168
including: loans taken out on a trust basis				
€31 million				(168)
5 Other liabilities			8,169	9,305
6 Deferred income				
a) from issuing and lending operations		29		37
b) other		133		389
			162	426
6a Deferred tax liabilities			—	—
7 Provisions				
a) provisions for pensions				
and similar commitments		—		—
b) tax provisions		875		521
c) other provisions		2,666		3,010
			3,541	3,531
8 Subordinated liabilities			2,379	3,207
9 Participating certificates outstanding			—	155
including: those due in less than two years				
€— million				(155)
10 Fund for general banking risks			431	314
thereof: as per Sect. 340e				
€140 million				(23)
Amount carried forward:			334,202	375,346

Assets

(€ millions)

		31/12/2012	31/12/2011
Amount brought forward:		352,496	393,017
9 Trust assets		31	168
including: loans granted on a trust basis			
€31 million			(168)
10 Intangible assets			
a) internally generated intellectual property rights			
and similar rights and assets	—		—
b) purchased franchises, intellectual property rights, and similar			
rights and assets, as well as licences to such rights and assets	57		79
c) goodwill	—		113
d) advance payments	10		19
		67	211
11 Property, plant and equipment		174	238
12 Other assets		1,393	1,508
13 Prepaid expenses			
a) from issuing and lending operations	66		83
b) other	63		65
		129	148
14 Deferred tax assets		—	—
15 Excess of plan assets over pension liabilities		727	426
Total assets		**355,017**	**395,716**

Liabilities

(€ millions)

			31/12/2012	31/12/2011
Amount brought forward:			334,202	375,346
11 Shareholders' equity				
a) subscribed capital		2,407		2,407
divided into:				
802,383,672 shares of common				
bearer stock				
b) additional paid-in capital		9,791		9,791
c) retained earnings				
ca) legal reserve	—			—
cb) reserve for shares in a controlling				
or majority interest-holding company	6			10
cc) statutory reserve	—			—
cd) other retained earnings	6,149			7,145
		6,155		7,155
d) profit available for distribution		2,462		1,017
			20,815	20,370
Total liabilities and shareholders' equity			**355,017**	**395,716**
1 Contingent liabilities				
a) contingent liabilities on rediscounted				
bills of exchange credited to borrowers		—		—
b) liabilities under guarantees and				
indemnity agreements		29,359		32,051
c) contingent liabilities on assets pledged				
as collateral for third-party debts		—		—
			29,359	32,051
2 Other commitments				
a) commitments from the sale of assets				
subject to repurchase agreements		—		—
b) placing and underwriting commitments		—		—
c) irrevocable lending commitments		27,166		28,770
			27,166	28,770

Notes to the Annual Financial Statements

Legal basis

The annual financial statements of UniCredit Bank AG ("HVB") for the 2012 financial year are prepared in accordance with the accounting regulations in the German Commercial Code (Handelsgesetzbuch – HGB), the German Stock Corporation Act (Aktiengesetz – AktG), the German Pfandbrief Act (Pfandbriefgesetz – PfandBG) and the Regulations Governing Disclosures in the Financial Statements of Banks and Similar Financial Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV).

HVB is active in all of the sectors served by commercial and mortgage banks.

HVB has published the statement of compliance with the German Corporate Governance Code required by Section 161 AktG on its website at www.hvb.de/investorrelations/reportsfinancedata.

Accounting, valuation and disclosure

1 Consistency

The same accounting and valuation methods have essentially been applied as last year. Changes in accounting and valuation methods as well as disclosure modifications are indicated for the respective items.

2 Cash and cash balances

The cash and cash balances (asset item 1) are stated at nominal amounts.

3 Treasury bills and bills of exchange

Treasury bills and other bills (asset item 2) are shown at their cash value, less any discounted amounts.

4 Loans and receivables with banks and customers

Loans and receivables with banks and customers (asset items 3 and 4) are always stated at the nominal amount plus any accrued interest. Differences between acquisition cost and nominal amount (premiums/discounts) that are attributable to interest are allocated to prepaid expenses or deferred income and taken to the income statement under net interest income in the correct period over the term of the underlying items. Any necessary write-downs are deducted.

Loans and receivables are valued at the lower of cost or market as stipulated in Section 253 (4) 1 HGB. HVB creates specific loan-loss provisions and accruals to the amount of the anticipated loss for all identifiable exposure to acute counterparty default risk. The discounted expected flow-backs were used when determining the level of write-downs compliant with Section 253 HGB. The Bank has defined more precisely the processes used to estimate the anticipated date when payments will be received and discounted to be used when determining the specific allowances for non-performing loans and receivables. This prospective change in estimates of the present value of anticipated cash inflows gave rise to a gain of €86 million (reversal of loan-loss provisions) at year-end 2012. Specific loan-loss provisions and accruals are reversed as soon as the default risk has ceased, or used if the receivable is classified as irrecoverable and written off.

Country risk is covered by specific loan-loss provisions for loans at risk of default; a distinction is no longer made between the default risk of the borrower and the transfer risk from the borrower to the Bank.

Latent lending risks are covered by global provisions. When assessing domestic latent lending risks, HVB applies the principles of the German tax regulations allowing financial institutions to deduct global provisions. When assessing foreign latent lending risks, HVB similarly applies the principles of the German tax regulations allowing financial institutions to deduct global provisions. The only exception is the calculation of latent lending risks for the Athens branch, where the global provisions are set up on the basis of Greek law (1% of the average volume of loans and receivables with customers).

Like other loans and receivables, mortgage loans are shown at their nominal values. Differences between the nominal amount and the actual amount paid out are included under either prepaid expenses or deferred income, and amortised over the period to which they apply.

The purpose defined at the time of acquisition (Section 247 (1) and (2) HGB) determines the assignment of loans, receivables and securities to the held-for-trading portfolios, the liquidity reserve or investment assets.

5 Bonds and other fixed-income securities
Investment securities and securities held for liquidity purposes (securities treated neither as held for trading purposes nor as investment securities) are shown under bonds and other fixed-income securities (asset item 5) and equity securities and other variable-yield securities (asset item 6).

HVB's total holdings of securities at the reporting date consisted of 36.9% held for trading purposes, 38.0% held for liquidity purposes and 25.1% held as investment securities.

We measure investment securities in accordance with the modified lower of cost or market principle compliant with Section 253 (3) 3 HGB, under which impairments are only to be deducted from the acquisition cost if the loss of value is expected to be permanent. In the case of equity instruments, we recognise an impairment loss if the fair value is significantly lower than the carrying amount or if the fair value has exceeded the carrying amount for a long period of time. In the case of debt instruments, on the other hand, an impairment that is likely to be permanent occurs when the issuer of the securities defaults. In the event of a loss of value that is attributable to market prices, we assume that the impairment is only temporary, as these losses will be balanced out again by the due date at the latest. On the other hand, securities held for liquidity purposes are treated as current assets valued at the lower of cost or market (Section 253 (4) 1 HGB) and carried at their acquisition cost or market, or fair value, whichever is the lower. In the same way as in the held-for-trading portfolio, appropriate write-downs are taken on the market values determined (for more information about these fair value adjustments, please refer to the comments regarding the held-for-trading portfolio). Where the reasons for a write-down to the lower of cost or market no longer apply, the write-down is reversed compliant with Section 253 (5) HGB.

We have set up valuation units documented in advance for certain interest-bearing securities and promissory notes held for liquidity purposes (with a carrying amount of €23,507 million (2011: €27,270 million)) hedged against interest rate risk by equivalent hedging derivatives (notably interest rate swaps). The hedge of the dynamic portfolio within the framework of the valuation unit is of unlimited duration; the hedging period of the individual hedging derivatives is always related to the residual maturity of the respective hedged items in the portfolio. The offset changes in the fair value of the interest-bearing securities amount to an increase of €876 million (2011: €589 million) for these portfolios. At the same time, both the interest rate risk and the foreign currency risk inherent in a bond denominated in US dollars is hedged in a further minor valuation unit (with a carrying amount of €367 million (2011: €367 million)) using a cross-currency swap (micro hedge). The offset change in the value of interest-bearing securities totals a decrease of €66 million (2011: €61 million) for this valuation unit. The requirements of Section 254 HGB regarding valuation units have been met. The effectiveness of the valuation units is demonstrated prospectively using risk management methods relevant for measuring effectiveness (interest rate risk sensitivity analyses based on basis point values). The interest rate risk sensitivities in the hedged items and hedging derivatives largely offset each other at year-end. The changes in value arising from the hedged items and hedges are set against each other and offset within the individual valuation units. Under the net hedge presentation method, no net valuation gain is taken to the income statement; provisions for anticipated losses on pending transactions are set up to cover any net loss on the ineffective portion of the changes in value. Any valuation loss risk arising from the unhedged risk is included in the respective hedged items and hedging derivatives in accordance with the imparity principle.

6 Held-for-trading portfolio
Compliant with Section 340e (3) HGB, financial instruments held by banks for trading purposes are measured at fair value less a risk discount and recognised in the balance sheet. Any ensuing changes in value are recognised in the income statement under net income from the held-for-trading portfolio. In addition, compliant with Section 340e (4) HGB in the event of a net profit being recorded on financial operations, 10% of the net income from the held-for-trading portfolio is allocated to the "Fund for general banking risks" in accordance with Section 340g HGB, with a corresponding reduction in the dividend payout, and shown in the balance sheet separately. HVB assigns all financial instruments (bonds, equity securities, derivatives, loans and receivables, and liabilities, including delivery obligations arising from short sales of securities) to the held-for-trading portfolio that are acquired and sold with the intention of generating a short-term gain on proprietary trading. No changes have been made compared with last year regarding the criteria for assignment to the trading portfolio (definition of the intention to trade). No financial instruments have been reclassified to or from the held-for-trading portfolio. The assets and liabilities that are held-for-trading are shown separately in the balance sheet (asset item 6a and liability item 3a).

Notes to the Annual Financial Statements (Continued)

We have determined the fair value of the financial instruments held for trading purposes in accordance with the valuation hierarchy specified in Section 255 (4) HGB. The fair value is normally defined as the amount at which the asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the balance sheet date. The market price is used for financial instruments for which there is an active market. Where there is no active market that can be used to determine the market price, the fair value is determined with the aid of generally recognised valuation methods (notably discounted cash flow models and option price models).

The fair values of securities and derivatives are calculated on the basis of either external price sources (such as stock exchanges or other price providers like Reuters) or market prices determined using internal valuation models (mark-to-model). For the most part, prices from external sources are used to calculate the fair value of securities. HVB's credit risk is included in the fair value of liabilities held for trading purposes. Derivatives are primarily measured on the basis of valuation models. The parameters for our internal valuation models (such as yield curves, volatilities and spreads) are taken from external sources, and checked for their validity and correctness by the Risk Control unit.

Appropriate adjustments (referred to as fair value adjustments) are made to the fair values calculated in this way in order to take account of further influences on the fair value (such as the liquidity of the financial instrument or model risks when the fair value is calculated using a valuation model). Counterparty default risk in trading-book derivatives is covered by applying counterparty valuation adjustments (CVAs).

The main conditions that can influence the amount, timing and certainty of future cash flows from derivatives essentially relate to the following features of derivatives:

- Where the cash flows under derivatives are linked to current market prices or rates, the respective market price or market rate at the payment date determines the amount payable (in the case of interest rate swaps, for instance, the payment of the variable interest rate on the payment date depends on the interest rate fixed on this date, such as Euribor).
- Where the derivatives allow for cash settlement at market value on the due date, the amount payable is calculated as the difference between the price set when the derivative was entered into and the current market price (in the case of a foreign exchange forward with cash settlement, for instance, the difference between the agreed forward price and the current price is payable).
- In the case of American options, unlike European options, the option buyer has the right to exercise the option at any time during the term of the option, meaning that the buyer of the option determines the date on which the payments are made.
- Where it is possible to terminate a derivative prior to maturity (as is the case with all exchange-traded derivatives, for instance), the derivative may be terminated at any time by paying the current fair value.
- The counterparty's credit rating and solvency are a further important consideration. If the counterparty becomes insolvent, it can no longer be expected that it will meet its obligations arising from the derivative.

These features may be included in the terms agreed for any type of derivative. Thus it is possible that foreign exchange, interest rate and equity options may be exercised at any time (American option) or only at maturity (European option). It is generally possible to determine the size of the derivative positions entered into from the respective nominal amounts. The Risk Report contains a detailed overview of the Bank's derivative transactions.

In order to obtain the final figures disclosed in the balance sheet for the held-for-trading portfolios, the risk discount required by Section 340e (3) 1 HGB is deducted from the fair values of the financial instruments held for trading purposes determined in this way. Including the risk discount in net trading income reflects the risk of possible price losses up until the earliest possible date of realisation of unrealised valuation gains or losses. In accordance with the relevant regulatory rules, the risk discount is determined on the basis of the internal risk management system using an accounting value-at-risk approach (holding period of ten days; confidence level: 99%; 2-year observation period). We have deducted the risk discount determined for the entire held-for-trading portfolio from the assets held for trading purposes in the balance sheet (asset item 6a) and recognised it in the net income from the held-for-trading portfolio.

HVB employs derivative financial instruments both for trading purposes and to hedge balance sheet items. The vast majority are trading derivatives which are disclosed at their fair value in the held-for-trading portfolio items on the assets side and liabilities side of the balance sheet and taken to the income statement. The hedging derivatives have positive market values of €108,472 million (2011: €123,501 million) (within asset item 6a) and negative market values of €107,770 million (2011: €123,608 million) (within liability item 3a).

Derivatives that are not associated with the held-for-trading portfolio continue to be treated in accordance with the principle of the non-recognition of pending transactions. Only cash flows that have started, such as option premiums and accrued upfront payments on unvalued banking book derivatives, are disclosed under other assets (asset item 12), other liabilities (liability item 5) and deferred income or prepaid expenses (asset item 13 and liability item 6). The valuation of hedging derivatives that form part of valuation units that have been set up is included in the provision for anticipated losses on pending transactions to be recognised in the event of an unrealised net valuation unit loss resulting from inefficiencies in the hedged risk. In accordance with German GAAP, any change in fair value arising from the unhedged risk in both the hedged item and the hedging instrument is recognised on a gross basis in compliance with individual valuation under the imparity principle. The interest derivatives employed for asset/liability management of the general interest rate risk associated with receivables and liabilities in the banking book remain unvalued as part of the aggregate interest position within the framework of the recognised valuation convention in the banking book. Please refer to the Risk Report for a discussion of the management of the overall interest rate position. The few remaining standalone derivatives outside the trading book are valued in accordance with the imparity principle. A provision for anticipated losses on pending transactions is set up for unrealised valuation losses; unrealised valuation gains are not recognised.

In accordance with the provisions of Section 10 RechKredV, the positive and negative market values of OTC derivatives that offset each other at currency level were netted for OTC derivatives concluded with the same central counterparty for the first time.

For the first time, we ceased to carry the future premium payments accruing from Boston-style currency options under loans and receivables with banks and customers or deposits from banks and customers in the reporting period. They are now carried under assets or liabilities held for trading purposes as part of the market value for the option instead. All Boston-style currency options are classified as held-for-trading.

Extensive information about our derivative financial instruments, complete with detailed breakdowns by product and risk type, and showing the nominal amounts, fair values and the counterparty structure, is included in the note to the annual financial statements regarding derivative financial instruments.

7 Participating interests and shares in affiliated companies

Participating interests and shares in affiliated companies (asset items 7 and 8) are shown at the lower of acquisition cost or – if there is a permanent impairment – fair value prevailing at the balance sheet date.

Where HVB holds a controlling interest, profits and losses of partnerships as well as dividends paid by limited or incorporated companies are recognised in the year in which they arise.

When disclosing income from write-ups on participating interests, shares in affiliated companies and investment securities (income item 7) and write-downs on these investments (expense item 8), HVB has exercised the option allowed under Section 340c (2) 2 HGB. HVB nets out respective expense and income items which also contain the results from the disposal of financial assets.

Notes to the Annual Financial Statements (Continued)

8 Intangible assets
Essentially, goodwill and software are disclosed under intangible assets (asset item 10).

Purchased goodwill is calculated by setting the acquisition cost of a company against the value of the company's individual assets, less the liabilities at the time of acquisition. It is normally amortised over the standard useful life of five years assumed by law. In justified cases, the goodwill may be amortised over a longer period, provided the individual expected useful operating life exceeds five years. An impairment is recognised in the event of a permanent loss of value. Should the reasons for the impairment no longer apply, the lower amount recognised for derivative goodwill is retained.

Purchased intangible assets are capitalised at cost and amortised over their expected useful life of three to five years (software) or a longer contractual useful life of up to ten years (other intangible assets). Impairments are recognised where necessary. HVB has not made use of the capitalisation option for internally generated intangible assets classified as non-current.

9 Property, plant and equipment
Property, plant and equipment (asset item 11) is valued at acquisition or production cost, less – insofar as the assets are depreciable – depreciation using the straight-line method based on their expected useful life. In such cases, the useful lives are closely related to the depreciation rules specified in Section 7 of the German Income Tax Act (Einkommensteuergesetz – EStG) in conjunction with the depreciation tables for equipment. Minor fixed assets are fully expensed in the year of acquisition and shown as additions and disposals in the analysis of non-current assets. Pro rata depreciation is taken to the income statement for additions to furniture and office equipment in the year of acquisition.

10 Liabilities
Liabilities (liability items 1 to 3, 8 and 9) are stated at the amount repayable plus accrued interest. Differences between the amount repayable and the amount disbursed (premiums/discounts) that are attributable to interest are allocated to prepaid expenses or deferred income, and reversed under net interest income in the correct accounting period. Liabilities without current interest payments (zero-coupon bonds) are stated at their cash value.

11 Provisions
In accordance with the principles of sound commercial judgement, we assess provisions for taxes, uncertain liabilities and anticipated losses on pending transactions (liability item 7) at the amount repayable, taking into account anticipated future price and cost increases. Provisions falling due in more than one year are discounted using the average market rate of the past seven financial years determined and published by Deutsche Bundesbank as appropriate for the respective maturities.

We measure payment obligations arising from pension commitments at the amount payable calculated using the projected unit credit method on the basis of biometric probabilities. Anticipated future salary and pension increases are taken into account when measuring the pension commitment. Insofar as the amount of the pension commitments is determined exclusively by the fair value of securities, we recognise provisions for this at the fair value of these securities where it exceeds a guaranteed minimum amount. HVB has made use of the option to employ the average market rate determined and published by Deutsche Bundesbank as the discount rate for an assumed residual maturity of 15 years.

The discount rate for November 2012 published by Deutsche Bundesbank for a residual maturity of 15 years at 5.05% p.a. (2011: 5.14% p.a.) and a pension trend of 1.70% p.a. (2011: 1.70% p.a.) were applied in the actuarial calculation of the amount payable at 31 December 2012. A figure of 2.00% p.a. (2011: 2.00% p.a.) has been included in the calculation for the anticipated wage and salary increases; a figure of 0.50–1.50% (2011: 0.50–1.50%) has been included in the calculation for the career trend. Life expectancies are based on the modified Heubeck 2005 G tables.

Whereas the income and expenses arising from the compounding and discounting of provisions for pensions are shown in net interest income, the current service cost accruing during the period and the effects arising from changed assumptions regarding the wage, salary and pension trend and biometric probabilities are disclosed under payroll costs. The same principles apply for the impact on earnings arising from the change in the group of beneficiaries and the change in provisions for pension in connection with company restructuring activities. Similarly, the impact on earnings of the change in the discount rate arising during the course of the 2012 financial year is allocated to payroll costs.

An allocation totalling €332 million is required as the recognised provision for pensions and similar commitments rises on account of the inclusion of future pay and pension increases and the change in the discount rate caused by the changeover to the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG). HVB makes use of the option compliant with Section 67 (1) 1 of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch – EGHGB) to aggregate the amount allocable to the provisions for pensions in annual instalments of one-fifteenth in every financial year up to 31 December 2024. The annual allocation of €22 million is charged to extraordinary income/expenses in the income statement.

Furthermore, IDW RS BFA 3 requires the Bank to check whether it has incurred a loss on the aggregate holding of interest-bearing transactions in the banking book. The Bank applies the net present value approach to ascertain whether there are any circumstances beyond the individual valuation that had already occurred in economic terms at the reporting date that would lead to losses in the future. In this instance, it would be necessary to set up a provision for anticipated losses on pending transactions to ensure loss-free valuation in the banking book. To do this, the cash flows from the interest-bearing transactions in the banking book are discounted on the basis of the market interest rates at the reporting date and set against their carrying amounts. All on- and off-balance-sheet, interest-bearing financial instruments outside of the held-for-trading portfolio are included in this process. All costs to be incurred in connection with the interest-bearing transactions such as risk costs, administration costs for handling the transactions through to their maturity, funding costs and so on are taken into account for discounting. This also includes imputed costs for equity capital that are stated in compliance with the rules for internal interest rate risk management. The contractual cash flows are normally used as the basis; appropriate assumptions regarding maturity are only made and used as the basis for financial instruments with no fixed maturity (such as demand and savings deposits) in compliance with the internal risk management rules. The present values calculated in this way are set against the carrying amounts; derivatives concluded to hedge interest rate risk in the banking book are recognised at their fair value and generally set against a carrying amount of zero as they are not carried as general hedging derivatives in the banking book. A provision for anticipated losses on pending transactions needs to be set up to cover any shortfall between the present value determined in this way and the carrying amount. In this context, positive differences on interest-bearing transactions may not be offset against negative differences unless the transactions concerned are controlled together in internal interest rate risk management. A provision of €126 million for anticipated losses on pending transactions was set up during the reporting period for an isolated securities portfolio (carrying amount €1.5 billion) which is managed on a standalone basis.

12 Plan assets

Assets serving exclusively to settle pension commitments or similar long-term commitments, and to which all other creditors do not have recourse, are measured at fair value and offset against the underlying commitment.

If the offsetting results in an excess of commitments over plan assets, we recognise a provision for pensions and similar commitments (liability item 7) to this amount. If the value of the assets exceeds the commitments, the amount is recognised under excess of plan assets over pension liabilities (asset item 15).

The plan assets consist mainly of investment fund shares that are recognised at the current redemption price (fair value).

Income and expenses arising from plan assets and from the compounding and discounting of the corresponding obligations are offset against each other and shown in net interest income.

Compliant with Section 8a of the German Semi-Retirement Act (Altersteilzeitgesetz – AltTZG), employee credits for semi-retirement are secured by pledging securities to the trustee.

Notes to the Annual Financial Statements (Continued)

13 Deferred tax assets and liabilities

Compliant with Section 274 HGB, deferred tax items are determined for temporary differences between the carrying amount of an asset, liability or deferred item shown in the commercial balance sheet and the corresponding amount disclosed for tax reporting purposes as well as for tax loss carryforwards and tax credits. German corporations are normally charged a corporate income tax rate of 15%, irrespective of any dividend distribution. Deferred taxes are measured using the uniform corporate income tax rate of 15.8%, including the solidarity surcharge, and the municipal trade tax dependent upon the applicable municipal trade tax multiplier. At HVB, this results in an overall valuation rate for the domestic portion of deferred taxes of 31.4%. The respective local tax rates are applied analogously for the foreign units. Compliant with Section 274 (1) 2 HGB, the amounts involved have not been recognised on account of an aggregate future reduction in tax. This results mainly from tax valuation provisions regarding general provisions and risk provisions as well as tax loss carryforwards.

14 Foreign currencies

Amounts in foreign currency are translated in accordance with the principles set forth in Section 340h and Section 256a HGB. As a result, assets and liabilities denominated in foreign currency and spot transactions outstanding at the balance sheet date are always converted into euros using the mean spot rate applicable at the balance sheet date. On the other hand, investment securities denominated in foreign currency that are not specifically covered in the same currency are carried at their historical cost. Outstanding forward transactions are translated using the forward rate effective at the balance sheet date.

The foreign currency positions in the portfolio not held-for-trading that are concluded in each currency are classified as having special cover within the meaning of Section 340h HGB and transferred to the held-for-trading portfolio on a daily basis under a standard system of currency risk management that is applicable across the Bank as a whole. The translation gains on the foreign currency positions managed in the held-for-trading portfolio are recognised at fair value in the income statement in accordance with the valuation methods applicable to the held-for-trading portfolio (Section 340e (3) 1 HGB). Consequently, the entire net income from FX trading is disclosed under net income from the held-for-trading portfolio in the income statement.

Notes to the Balance Sheet

15 Breakdown by maturity of selected asset items

(€ millions)

			2012	2011
A 3 b)	Other loans and receivables with banks			
	with residual maturity of	less than 3 months	16,555	19,930
		at least 3 months but less than 1 year	2,468	2,840
		at least 1 year but less than 5 years	6,275	6,312
		5 years or more	1,303	2,376
A 4)	Loans and receivables with customers			
	with residual maturity of	less than 3 months	5,509	9,700
		at least 3 months but less than 1 year	6,411	7,726
		at least 1 year but less than 5 years	31,317	33,250
		5 years or more	40,411	45,465
		No fixed maturity	13,311	12,423
A 5)	Bonds and other fixed-income securities, amounts due in the following year		8,946	11,061

16 Breakdown by maturity of selected liability items

(€ millions)

			2012	2011
L 1	Deposits from banks			
L 1 b)	with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	11,654	28,753
		at least 3 months but less than 1 year	7,622	3,634
		at least 1 year but less than 5 years	9,892	9,492
		5 years or more	5,147	6,509
L 2	Deposits from customers			
L 2 ab)	Savings deposits with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	15	23
		at least 3 months but less than 1 year	24	47
		at least 1 year but less than 5 years	100	103
		5 years or more	19	30
L 2 b)	Registered mortgage bonds in issue,			
L 2 c)	registered public-sector bonds in issue,			
L 2 db)	other debts with agreed maturity dates or periods of notice			
	with residual maturity of	less than 3 months	16,677	24,692
		at least 3 months but less than 1 year	9,968	7,986
		at least 1 year but less than 5 years	7,077	6,924
		5 years or more	11,029	11,963
L 3	Debt securities in issue			
L 3 a)	Bonds, amounts due in following year		5,836	6,743
L 3 b)	Other debt securities in issue			
	with residual maturity of	less than 3 months	—	—
		at least 3 months but less than 1 year	—	—
		at least 1 year but less than 5 years	—	—
		5 years or more	—	—

Notes to the Balance Sheet (Continued)

17 Amounts receivable from and payable to affiliates and companies in which participating interests are held

(€ millions)

	AFFILIATES 2012	AFFILIATES 2011	PARTICIPATING INTERESTS 2012	PARTICIPATING INTERESTS 2011
Loans and receivables with banks	19,609	26,269	377	470
of which: UniCredit S.p.A.	938	4,548	—	—
Loans and receivables with customers	3,446	3,687	912	1,204
Bonds and other fixed-income securities	5,022	10,342	6,050	9,058
of which: UniCredit S.p.A.	4,311	5,634	—	—
Deposits from banks	9,702	9,121	157	220
of which: UniCredit S.p.A.	2,761	2,110	—	—
Deposits from customers	1,554	2,266	338	473
Debt securities in issue	2,012	1,405	—	—
of which: UniCredit S.p.A.	351	351	—	—
Subordinated liabilities	1,047	1,443	—	—

Besides the relationships with affiliated companies, there are a number of transactions involving UniCredit S.p.A. and other affiliated but not consolidated UniCredit companies as a result of the integration of HVB into the UniCredit group of companies.

In the course of the integration of HVB into the UniCredit group of companies, HVB has been assigned the role of centre of competence for markets and investment banking for the entire corporate group. Among other things, HVB acts as counterparty for derivative transactions conducted by UniCredit companies in this role. For the most part, this involves hedge derivatives that are externalised on the market by HVB.

Furthermore, there was a sharp reduction in the exposure to UniCredit and its subsidiaries in 2012.

18 Trust business

Trust business assets and liabilities break down as follows:

(€ millions)

	2012	2011
Loans and receivables with banks	—	—
Loans and receivables with customers	31	168
Equity securities and other variable-yield securities	—	—
Participating interests	—	—
Trust assets	**31**	**168**
Deposits from banks	3	4
Deposits from customers	28	164
Debt securities in issue	—	—
Other liabilities	—	—
Trust liabilities	**31**	**168**

The significantly lower volume of trustee activities compared with last year can essentially be attributed to an expired bond.

19 Foreign-currency assets and liabilities

62.9% of HVB's foreign-currency holdings consist of US dollars, 16.6% of pounds sterling, 3.1% of Japanese yen and 2.5% of Swiss francs. (€ millions)

	2012	2011
Cash and cash balances	1,443	734
Treasury bills and other bills eligible for refinancing with central banks	—	—
Loans and receivables with banks	1,831	3,439
Loans and receivables with customers	17,466	21,446
Bonds and other fixed-income securities	2,449	2,970
Equity securities and other variable-yield securities	37	48
Held-for-trading portfolio (assets held for trading purposes)[1]	6,746	7,779
Participating interests	221	324
Shares in affiliated companies	284	525
Trust assets	27	163
Intangible assets	—	1
Property, plant and equipment	4	7
Other assets	113	267
Prepaid expenses	7	7
Assets	**30,628**	**37,710**
Deposits from banks	10,851	11,112
Deposits from customers	5,174	6,084
Debt securities in issue	43	194
Held-for-trading portfolio (liabilities held for trading purposes)[1]	5,215	6,842
Trust liabilities	27	163
Other liabilities	119	180
Deferred income	33	51
Provisions	92	41
Subordinated liabilities	360	776
Liabilities	**21,914**	**25,443**

1 due to system-related restrictions, only derivative volumes denominated in euros are included

The amounts shown represent the euro equivalents of all currencies. The Trading department actively monitors the foreign currency position, and differences between assets and liabilities are generally closed by taking out derivatives.

20 Subordinated asset items

The following balance sheet items contain subordinated assets totalling €4,272 million (2011: €5,198 million): (€ millions)

	2012	2011
Loans and receivables with banks	1,273	1,286
Loans and receivables with customers	175	436
Bonds and other fixed-income securities	2,587	3,166
Equity securities and other variable-yield securities	8	8
Held-for-trading portfolio	229	302

Notes to the Balance Sheet (Continued)

21 Marketable debt and investments

The listed and unlisted marketable securities included in the respective balance sheet items break down as follows: (€ millions)

	TOTAL MARKET-ABLE SECURITIES 2012	TOTAL MARKET-ABLE SECURITIES 2011	OF WHICH: LISTED 2012	OF WHICH: LISTED 2011	OF WHICH: UNLISTED 2012	OF WHICH: UNLISTED 2011
Bonds and other fixed-income securities	48,562	56,877	41,622	44,884	6,940	11,993
Equity securities and other						
variable-yield securities	80	68	26	9	55	59
Held-for-trading portfolio	28,435	35,307	20,017	19,906	8,417	15,401
Participating interests	104	104	104	104	—	—
Shares in affiliated companies	288	288	288	288	—	—

Non-current securities contain financial instruments carried at an amount higher than their fair value. The carrying amount of the non-current securities is €19,929 million (2011: €22,306 million) and the fair value €19,610 million (2011: €21,279 million) (fair value of marketable securities €19,610 million (2011: €22,306 million)), of which €19,610 million (2011: €22,305 million) relates to bonds and other fixed-income securities. Given the development of interest and rating risks, we do not believe that these securities have suffered a permanent loss of value.

The marketable debt and investments, and loans and receivables (including promissory notes), at 31 December 2012 included no Greek sovereign bonds.

22 Held-for-trading portfolio

The following table shows the breakdown of assets held-for-trading purposes (asset item 6a) by financial instrument totalling €143,531 million (2011: €167,239 million): (€ millions)

	2012	2011
Derivative financial instruments (positive market values)	108,472	123,501
Loans and receivables	5,838	7,666
Bonds and other fixed-income securities	24,109	31,346
Equity securities and other variable-yield securities	5,164	4,834
Less risk discount (for entire portfolio of assets held-for-trading purposes)	(52)	(108)

The following table shows the breakdown of liabilities held-for-trading purposes (liability item 3a) by financial instrument totalling €132,327 million (2011: €152,843 million): (€ millions)

	2012	2011
Derivative financial instruments (negative market values)	107,770	123,608
Liabilities (including delivery obligations arising from short sales of securities)	24,557	29,235

In accordance with the provisions of Section 10 RechKredV, the positive and negative market values of OTC derivatives that offset each other at currency level were netted for OTC derivatives concluded with the same central counterparty for the first time. Originally there were positive market values of €20.4 billion and negative market values of €21.3 billion with the same central counterparty. After netting of €20.3 billion, there remain positive market values of €0.1 billion recognised in assets held-for-trading purposes and negative market values of €1.0 billion recognised in liabilities held-for-trading purposes.

23 Investment funds

The following table contains information regarding shares in investment funds for which the Bank's holding exceeds 10% of the total number of shares:

(€ millions)

	INFORMATION ON SHARES IN INVESTMENT FUNDS COMPLIANT WITH SECTION 285 No. 26 HGB					
	CARRYING AMOUNT		FAIR VALUE		DIVIDEND PAYMENTS	
FUND TYPE	31/12/2012	31/12/2011	31/12/2012	31/12/2011	2012	2011
Equity funds	91	55	93	56	—	—
Money market funds and near-money market funds	19	22	19	23	—	—
Mixed funds	188	72	188	72	0.6	—
Index funds	115	65	115	65	0.6	—
Bond funds	83	72	83	72	0.7	1
Total investment funds	**496**	**286**	**498**	**288**	**1.9**	**1**

In addition, the Bank holds all the shares in the "European-Office-Fonds" property special purpose entity, which is fully consolidated in the Bank's consolidated financial statements in accordance with SIC 12.

Under Section 246 (2) HGB, assets to which all other creditors do not have access and which serve exclusively to settle liabilities arising from pension commitments or similar long-term commitments must be offset against these liabilities. Where these assets represent shares in investment funds, they are not shown in this table.

The shares listed in this table are held in either the Bank's held-for-trading portfolio or its liquidity reserve. Where necessary, the holdings are always written down to the lower fair value.

In the case of the information regarding the dividend payments, it should be noted that the positions included in the table frequently represent investment funds that reinvest dividends in themselves. Consequently, the dividend payments shown in the table serve only as a limited indicator for the performance of the investment funds.

There are no indications of a restriction on daily return for most of the shares listed here.

Notes to the Balance Sheet (Continued)

24 Analysis of non-current assets

(€ millions)

	ACQUISITION/ PRODUCTION COST 1	ADDITIONS DURING FINANCIAL YEAR 2	DISPOSALS DURING FINANCIAL YEAR 3	RECLASSIFICATIONS DURING FINANCIAL YEAR[2] 4
Intangible assets	**878**	**16**	**170**	**—**
thereof: Goodwill	141	—	141	—
Software	709	16	1	—
Other intangible assets	28	—	28	—
Property, plant and equipment	**586**	**5**	**17**	**(89)**
thereof: Land and buildings used by HVB in its operations	292	—	1	(88)
Furniture and office equipment	294	5	16	(1)
Other non-current assets	**21**	**—**	**—**	**—**
	ACQUISITION COST			**CHANGES +/–[1]**
Participating interests	1,020			(42)
Shares in affiliated companies	3,110			(388)
Investment securities	22,306			(2,377)

1 use has been made of the possibility of combining amounts allowed by Section 34 (3) RechKredV
2 the "Reclassifications during financial year" column shows the changes in value as a result of currency translation, among other things

25 Intangible assets

The goodwill of €113 million disclosed in the annual financial statements for 2011 resulted from the absorption of UniCredit CAIB Securities UK Ltd., London, by HVB in the 2010 financial year. The goodwill was amortised in full in 2012, meaning that the Bank no longer made use of amortisation over a useful life of 7.5 years calculated individually for the company.

Compliant with IDW RS HFA 11, system and application software is shown under intangible assets.

Non-scheduled amortisation is taken on unused software developments. There was no need to take non-scheduled amortisation during 2012.

26 Other assets

The following table shows the main items included in other assets totalling €1,393 million (2011: €1,508 million):

(€ millions)

	2012	2011
Claims to tax reimbursements	477	630
Claims to dividends from affiliated companies	347	325
Variation margin DTB	118	122
Land and buildings classified as current assets	52	—
Proportion of income from commission/interest not yet received	37	28
Proportion of income from portfolio fees	35	39
Trade debtors	22	26
Fixed assets (works of art)	21	21
Capital investments with life insurers	19	18
Adjustment item for tied currency positions	12	—
KG shares intended for re-sale	4	4
Collection paper, such as cheques, matured debentures, interest and dividend coupons	3	6
Premiums paid on options pending	—	2
Purchase price receivables	—	1

The claims to tax reimbursements consist of claims of €362 million (2011: €550 million) arising from income tax and of €115 million (2011: €80 million) arising from non-income taxes. The claims to dividends from affiliated companies include €181 million (2011: €214 million) in prorated income from UniCredit Luxembourg.

(€ millions)

	WRITE-UPS DURING FINANCIAL YEAR 5	DEPRECIATION/ AMORTISATION ACCUMULATED 6	SCHEDULED DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR 7	NON-SCHEDULED DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR 8	DISPOSALS DEPRECIATION/ AMORTISATION DURING FINANCIAL YEAR 9	NET BOOK VALUE 31/12/2012 10	NET BOOK VALUE 31/12/2011 11
	—	**657**	**57**	**103**	**170**	**67**	**211**
	—	—	10	103	141	—	113
	—	657	45	—	1	67	96
	—	—	2	—	28	—	2
	—	**311**	**20**	**—**	**57**	**174**	**238**
	—	88	9	—	41	115	172
	—	223	11	—	16	59	66
	—	**—**	**—**	**—**	**—**	**21**	**21**
						NET BOOK VALUE 31/12/2012	**NET BOOK VALUE 31/12/2011**
						978	1,112
						2,722	2,960
						19,929	22,306

27 Prepaid expenses

The prepaid expenses arising from issuing and lending operations include the following:

(€ millions)

	2012	2011
Discounts on funds borrowed	66	83
Premiums on amounts receivable	—	—

28 Excess of plan assets over pension liabilities

An amount payable of €823 million arising from liabilities due to pension and similar commitments was set against offsetting plan assets with a fair value of €1,551 million. Under the initial application provisions of the BilMoG, use was made of the option to spread the amount allocable to pension provisions equally over a period of 15 years. One-fifteenth of the transitional amount was allocated to the provision for pensions in the 2012 financial year. The omitted transitional allocation in the year under review totalled €266 million. The excess of assets over commitments, taking into account the omitted transitional allocation, is disclosed in the balance sheet as the excess of plan assets over pension liabilities (€727 million). The acquisition cost of the offsetting plan assets totalled €1,430 million. The assets involved are essentially fund shares, investments, and cash and cash equivalents.

(€ millions)

	2012	2011
Amount payable for offset pension and similar commitments	823	722
Fair value of the offsetting plan assets	1,551	1,148
Omitted transitional allocation	266	288
Excess of plan assets over the commitments, including the shortfall	727	426
Acquisition cost of the offsetting plan assets	1,430	1,068

Notes to the Balance Sheet (Continued)

29 Assets assigned or pledged as security for own liabilities

Assets totalling €46,505 million (2011: €60,932 million) were assigned or pledged as security for the following liabilities:

(€ millions)

	2012	2011
Deposits from banks	29,797	39,078
Deposits from customers	16,708	21,854
Provisions for pensions and similar commitments	—	—

The collateral provided for deposits from banks includes all collateral pledged to the ECB, irrespective of whether this is actually used to borrow funds or not. At 31 December 2012 and 2011, the volume of collateral pledged significantly exceeded the funds borrowed from the ECB.

Examples of own liabilities for which HVB provides collateral are special credit facilities provided by KfW and similar institutions, which the Bank has passed as loans in compliance with their conditions.

As a seller under repurchase agreements, HVB entered into sales and repurchase transactions for securities with a book value of €36,402 million (2011: €50,592 million). These securities continue to be shown under HVB's assets, and the consideration received in return is stated under liabilities. They comprise mainly open-market transactions with Deutsche Bundesbank and international money market transactions.

At the same time, further assets totalling €18,220 million (2011: €16,594 million) were pledged as security for securities lending transactions and exchange-traded derivatives.

In setting up a contractual trust arrangement (CTA), HVB transferred collateral to the asset administrator to hedge pension and semi-retirement obligations. Pursuant to Section 8a AltTZG, employers are required to hedge credit exceeding three times the amount of normal earnings, including the associated employer's contribution to the total social security charge, against the risk of insolvency. Recognised provisions and obligations to cover the costs of other group companies are not considered suitable means of security.

30 Other liabilities

The following table shows the main items included in other liabilities of €8,169 million (2011: €9,305 million):

(€ millions)

	2012	2011
Amounts owed to SPV	6,009	7,135
Obligations arising from debts assumed	1,297	1,312
Taxes payable	173	129
Other amounts owed to employees	97	104
Variation margin DTB	89	40
Banking book valuation reserves	38	49
Amounts yet to be distributed from outplacements, etc.	13	19
Liabilities from allowances paid to and losses absorbed from subsidiaries	6	7
Offsetting item for swap transactions	—	32
Accrued interest on participating certificates outstanding	—	10

The true sale transaction Rosenkavalier 2008 was carried out with a view to using the securities generated as collateral for repurchase agreements with the ECB. The underlying receivables are still recognised by HVB. All tranches are retained by the Bank, meaning that there is no corresponding reduction in risk-weighted assets.

The obligations arising from debts assumed essentially reflect obligations arising from the liquidation of media funds.

The taxes payable consist of liabilities from non-income taxes of €161 million (2011: €129 million) and income tax payable of €12 million (2011: €0 million).

31 Deferred income

Discounts on amounts receivable shown at nominal value totalled €15 million (2011: €19 million). Furthermore, other deferred income includes accrued commissions of €58 million (2011: €244 million) and interest of €69 million (2011: €80 million) collected in advance.

32 Provisions

HVB offers its employees various types of company pension plans. To fund the company pension plans, HVB has covered its pension commitments largely with plan assets managed as external trustee assets with limited access. These plan assets are set against the liabilities arising from pension commitments or similar long-term commitments. If the plan assets of the pension funds, pension guarantee associations or retirement benefit corporations in question do not cover the amount of the equivalent pension commitments payable, HVB recognises a provision for pension funds and similar obligations in the amount of the shortfall. If the fair value of the plan assets exceeds the commitments, the difference is recognised as the excess of plan assets over pension liabilities. The associated income and expenses to be offset are recognised in net interest income.

Other provisions include the following items: (€ millions)

	2012	2011
Provisions for losses on guarantees and indemnities	619	665
Anticipated losses on pending transactions	345	672
Provisions for uncertain liabilities	1,520	1,533
of which:		
Bonuses on savings plans	21	20
Anniversary bonus payments	44	45
Payments for early retirement, semi-retirement, etc.	9	5
Payments to employees	300	307
Restructuring provisions	182	140
Total other provisions	**2,666**	**3,010**

The additions to restructuring provisions in 2012 include additions relating to the changes to the organisational structure of HVB as part of the roll-out of the three business segments – Unternehmer Bank, Private Clients Bank and the reorganised Corporate & Investment Banking – announced in the fourth quarter of 2012 and the systematic strengthening of the regional offer and for measures aimed at securing the competitiveness of the mass-market activities over the coming years. Alongside the creation of new sales channels that are popular with customers, this also involves streamlining the current branch network and adapting staffing levels to reflect changed patterns of customer behaviour. These provisions have been set up primarily to cover severance payments to be disbursed mostly in 2013 and 2014.

The amounts used in 2012 result from restructuring programmes set up in previous years, notably including the provisions set up in the previous year to cover changes in the strategic orientation of the CIB division such as the discontinuation of the cash equity business for western Europe and the equity research activities.

Notes to the Balance Sheet (Continued)

33 Subordinated liabilities

This item includes accrued interest of €52 million (2011: €57 million). HVB incurred interest expenses of €161 million in 2012 (2011: €193 million).

The borrower cannot be obliged to make early repayment in the case of subordinated liabilities. In the event of insolvency or liquidation, subordinated loans are only repaid after the claims of all primary creditors have been settled. For the purposes of a bank's liable funds as defined under banking supervisory regulations, subordinated liabilities are regarded as supplementary or Tier III capital.

On 5 February 2002, HVB issued a subordinated bond with a volume of €750 million. This subordinated bond matures on 5 February 2014. The coupon is 6% p.a.

34 Participating certificates outstanding

In accordance with the terms and conditions of the participating certificates, all bearer participating certificates issued by UniCredit Bank AG expired on 31 December 2011. The nominal amounts to be repaid fell due for payment on 2 July 2012, attracting interest over the period between the expiry date and the repayment date. The interest payments for the 2012 financial year were disbursed in full.

Shareholders' Equity

35 Analysis of shareholders' equity shown in the balance sheet

(€ millions)

Subscribed capital		
Balance at 1 January 2012	2,407	
Balance at 31 December 2012		2,407
Additional paid-in capital		
Balance at 1 January 2012	9,791	
Balance at 31 December 2012		9,791
Retained earnings		
Legal reserve		
Balance at 1 January 2012	—	
Balance at 31 December 2012		—
Reserve for shares in a controlling or majority interest-holding company		
Balance at 1 January 2012	10	
Withdrawal from the reserve for shares in a controlling or majority interest-holding company	(4)	
Balance at 31 December 2012		6
Other retained earnings		
Balance at 1 January 2012	7,145	
Transfer from the reversal of the reserve for shares in a controlling or majority interest-holding company	4	
Withdrawal from other retained earnings	(1,000)	
Balance at 31 December 2012		6,149
Profit available for distribution		
Balance at 1 January 2012	1,017	
Dividend payout of HVB for 2011	(1,017)	
Withdrawal from retained earnings	1,000	
Net profit 2012	1,462	
Balance at 31 December 2012		2,462
Shareholders' equity		
Balance at 31 December 2012		20,815

36 Holdings of HVB stock in excess of 5%

(in %)

	2012	2011
UniCredit S.p.A.	100.0	100.0

Compliant with Section 271 (2) HGB, HVB is an affiliated company of UniCredit S.p.A., Rome (UniCredit), and is included in the consolidated financial statements of UniCredit, which can be obtained from the Trade and Companies Register in Rome, Italy.

37 Amounts not available for distribution

The measurement at fair value of offsetting plan assets in connection with pension commitments and semi-retirement agreements gives rise to an amount of €121 million (2011: €80 million).

38 Holdings pursuant to Section 285 No. 11 and 11a HGB

The complete list of shareholdings as a constituent part of the notes to the financial statements is given in the section entitled "List of Holdings" in this Annual Report. The condensed income statement is shown with the Management Report.

Notes to the Income Statement

The condensed income statement is shown with the Management Report.

39 Breakdown of income by region

The following table shows a breakdown by region of
– interest receivable
– current income from equity securities and other variable-yield securities, participating interests and shares in affiliated companies
– income earned under profit-pooling and profit-and-loss transfer agreements
– fees and commissions receivable
– other operating income
– net profit on financial operations:

(€ millions)

	2012	2011
Germany	7,977	9,972
UK	619	730
Italy	1,107	686
Rest of Europe	56	1,482
Americas	222	300
Asia	93	139

40 Net interest income

(€ millions)

	2012	2011
Interest income from		
lending and money market transactions	5,254	6,317
fixed-income securities	1,342	1,840
Current income from equity securities and other variable-yield securities,		
participating interests and shares in affiliated companies	414	1,002
Income from profit-pooling and profit-and-loss transfer agreements	106	41
Interest expenses	3,689	4,935
Net interest income	**3,427**	**4,265**

The interest portion of the change in provisions for pensions and similar commitments is reported under net interest income and relates to the expenses and income from the compounding and discounting of commitments. However, we disclose any effects on net income from the change in discount rate as payroll costs.

(€ millions)

	2012	2011
Expense component of the change in provisions for pensions and similar commitments	52	47
Income from plan assets used to offset pension and similar commitments	51	11
Expenses from plan assets used to offset pension and similar commitments	1	3
Net interest income from pension commitments	**(2)**	**(39)**

The interest expense of €83 million (2011: €74 million) arising from the compounding of provisions is included in net interest income.

41 Services performed for third parties

HVB performed significant services for third parties notably in portfolio, asset and trust-loan management, in the brokerage of insurance, savings and loan contracts and investment funds, in investment and securities commission activities, and in the handling of payments.

42 Net income from the held-for-trading portfolio

The net income from the held-for-trading portfolio (net trading income) of €1,048 million (2011: expense of €365 million) includes the offset income and expenses arising from transactions involving financial instruments held-for-trading purposes, complete with the full net income from FX operations. The total already includes as an expense the risk discount to be applied to the held-for-trading portfolios measured at fair value. In line with our internal management model, we show the current interest income/expenses and dividend income (interest income/expense from trading operations) associated with the held-for-trading portfolio in net interest income or current income rather than in net trading income. The net income from the held-for-trading portfolio rose by €1,413 million year-on-year to €1,048 million. It was necessary to take credit value adjustments of €485 million in 2011 on account of changes in borrower credit ratings. Most of these could be reversed again during the reporting period. Furthermore, the improvement in net trading income results from higher income generated by the foreign branches and from interest-related products associated with the valuation of market-making portfolios.

43 Breakdown of other operating income and expenses

This item primarily includes income from the reversal of provisions other than provisions for lending and securities operations (€170 million (2011: €632 million)) and payroll costs and cost of materials passed on (€61 million (2011: €66 million)). The high total for 2011 benefited from the reversal of a provision set up in connection with the completion and operation of an offshore wind farm and its reclassification to provisions for losses on loans and receivables.

Other operating expenses include the following:
– compensation and ex gratia payments (€47 million (2011: €37 million))
– additions to provisions other than provisions for lending and securities operations (€169 million (2011: €431 million))

44 Net income from securities held for liquidity purposes

The net income from securities held for liquidity purposes rose by €532 million year-on-year to €328 million. The total benefited from gains on the buy-back of hybrid capital instruments and supplementary capital carried out to optimise the capital structure.

45 Expenses from absorbed losses

There were no expenses from absorbed losses in other accounting periods in the 2012 financial year.

46 Extraordinary income/expenses

The initial application of the new provisions set forth in the BilMoG at 1 January 2010 resulted in 2012 in expenses of €22 million (2011: €22 million) arising from the revaluation of provisions for pensions to be disclosed under extraordinary income/expenses.

47 Taxes on income

All of the taxes on income relate to income from ordinary operations.

48 Net profit

The profit available for distribution amounts to €2,462 million. This comprises the net profit of €1,462 million generated in 2012 and a withdrawal of €1,000 million from other retained earnings. We will propose to the Shareholders' Meeting that a dividend of €2,462 million be paid to UniCredit S.p.A. (UniCredit), Rome, Italy. This represents a dividend of around €3.07 per share after around €1.27 in 2011. In accordance with a resolution adopted by the Shareholders' Meeting on 10 May 2012, the profit available for distribution of €1,017 million generated in 2011 was distributed to UniCredit.

Other Information

49 Contingent liabilities and other financial commitments

The following table shows the breakdown of contingent liabilities arising from guarantees and indemnity agreements totalling €29,359 million (2011: €32,051 million):

(€ millions)

	2012	2011
Loan guarantees	10,957	12,445
Guarantees and indemnities	15,841	17,017
Documentary credits	2,561	2,589
Total	**29,359**	**32,051**
thereof: to affiliated companies	11,901	13,019

Irrevocable lending commitments totalling €27,166 million (2011: €28,770 million) break down as follows:

(€ millions)

	2012	2011
Book credits	24,619	26,911
Mortgage and municipal loans	1,519	1,146
Guarantees	1,026	711
Bills of exchange	2	2
Total	**27,166**	**28,770**
thereof: to affiliated companies	670	506

The repurchase agreements recognised under book credits in 2011 that were already concluded at the reporting date but settlement of which had not yet taken place are no longer included in 2012. The year-ago figure for book credits has been reduced by €2,931 million accordingly.

Utilisation by the Bank on account of the contingent liabilities and other commitments that it has entered into is possible as part of its banking activities. Thus, every loan is fundamentally granted by utilising a previously made lending commitment that is shown under other commitments. Although utilisation by the Bank under contingent liabilities is not very probable in the case of guarantees it has issued, the possibility cannot be excluded. Utilisation is again generally the case with regard to the documentary credits also shown here, as these are employed in the settlement of foreign trade payments.

The key factor in this regard is that utilisation by the Bank under its contingent liabilities and other commitments does not generally lead to a loss. Instead, it results in the loan granted being recognised as is the case when a lending commitment is utilised. Provisions for anticipated losses on pending transactions that are required due to commitments to make payouts to defaulting borrowers are set up and deducted from the disclosed contingent liabilities and other commitments.

Other financial commitments arising from real estate and IT operations total €304 million (2011: €369 million). A large part of the total relates to contracts with subsidiaries (€140 million (2011: €152 million)). The contracts run for standard market periods, and no charges have been put off to future years.

At the reporting date, HVB had pledged securities worth €915 million (2011: €1,795 million) as collateral for transactions with Eurex Frankfurt AG, Frankfurt am Main.

As part of real estate financing and development operations, HVB assumes rental obligations or issues rental guarantees on a case-by-case basis to make fund constructions more marketable – in particular for lease funds and (closed-end) KG real estate funds offered by its H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH subsidiary. Provisions have been set aside in the income statement to cover identifiable risks arising from such guarantees.

Commitments for uncalled payments on shares not fully paid up amounted to €277 million (2011: €388 million) at year-end 2012, and similar obligations for shares in cooperatives totalled €1 thousand (2011: €1 million). HVB was not liable for any defaults on such calls under Section 22 (3) and Section 24 GmbHG.

Where employees are granted a bonus that is disbursed over a period of several years under their variable compensation arrangements, such a bonus represents an expense for this period and is taken to the income statement on a pro rata basis accordingly. Especially in the case of the group of employees identified as "risk-takers", the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (Instituts-Vergütungsverordnung) requires such a bonus to be disbursed over a period of several years. The bonus is granted subject to the proviso that the beneficiaries continue to work for UniCredit up to the date of payment or (in the case of bonuses granted in the form of shares or stock options) transfer. In some cases, the bonus is linked to further conditions (such as a malus arrangement that ensures that no loss is recorded at either the UniCredit corporate level or the level of the individual beneficiary or there is a significant reduction in the results achieved). Accordingly, the Bank will disburse an amount of €44 million in bonuses over the coming years – assuming the conditions are met – the prospect of which has already been indicated to employees but for which provisions have not been set up as this represents payroll costs for future periods.

Under Section 26 GmbHG, we were liable for calls for additional capital of €57 million with regard to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, at year-end 2012. In addition, under Article 5 (4) of the Articles of Association of Liquiditäts-Konsortialbank GmbH, we are jointly and severally liable for any defaults on such calls by members of the Association of German Banks, Berlin.

At the reporting date, HVB had unlimited personal liability arising from shares in three partnerships.

Under Section 5 (10) of the by-laws of the Deposit Guarantee Fund, we have undertaken to indemnify the Association of German Banks, Berlin, against any losses it might incur as a result of action taken on behalf of the banks in which we have a majority interest.

50 Off-balance-sheet transactions

Special purpose entities

HVB maintains business relations with a number of special purpose entities that pursue varying business models and hold various different types of assets. HVB's business relations with the special purpose entities are recognised in the financial statements either on or off the balance sheet.

The Bank uses special purpose entities to securitise both the Bank's own receivables and customer receivables. The latter involve commercial paper conduits for which the Bank provides guarantees and liquidity facilities.

In the case of the Bank's own receivables, the special purpose entities serve among other things to procure liquidity and reduce risk. These do not, however, result in the securitised receivables being taken off the books as they involve either synthetic securitisations aimed at reducing risk or securitisation transactions with all risks retained to create ABS paper eligible as collateral with central banks. The securitisation of customer receivables is generally accompanied by an improvement in the customer's liquidity situation and a broadening of the funding base, whereby the Bank generates income from the structuring service and the facilities provided. HVB may face economic disadvantages, in particular, should the facilities provided be drawn down.

In addition, there are special purpose entities for which HVB acts solely as an investor, for instance to purchase securities or grant loans. The ensuing risks may lead to write-downs being recognised on the positions involved.

Depending on the structure, the situation may exist where the majority of the risks and rewards of a given special purpose entity are attributable to HVB. In these cases, the special purpose entity is attributable to HVB for accounting purposes, which entails full consolidation of the special purpose entity in the consolidated financial statements of HVB.

Other Information (Continued)

Revocable credit commitments
HVB has granted its customers credit and liquidity facilities that are callable at any time and are not shown either on or off the balance sheet. The advantage for HVB from this customary, standardised product lies in the possibility of generating additional interest and commission income. This is set against the risk of a deterioration in the financial situation of those customers to whom these credit commitments were made.

Outsourcing of activities
Like other affiliated companies, HVB has outsourced IT activities to UniCredit Business Integrated Solutions S.C.p.A. (which was absorbed by the above-mentioned UniCredit Business Integrated Solutions S.C.p.A. with effect from 1 January 2012), a company that is affiliated with the Bank. The goal is to exploit synergies and enable HVB to offer fast, high-quality IT services.

Furthermore, HVB has transferred certain back office activities to UniCredit Business Partner S.C.p.A. (which was absorbed by the above-mentioned UniCredit Business Integrated Solutions S.C.p.A. with effect from 1 January 2012), a company affiliated with the Bank that provides settlement services for HVB and other affiliated companies in line with a standard business and operating model. The advantage for HVB lies in the generation of synergies.

HVB has outsourced the handling of securities transactions in Germany to an external service provider. The purpose of this for HVB is to permanently reduce its operating costs.

HVB has transferred new business involving consumer loans, instant-approval loans and credit cards to a German branch office of UniCredit S.p.A. This office is more specialised in these fields, from which HVB also benefits accordingly. Thus, the transactions brokered by HVB in this regard are no longer recognised on or off the balance sheet.

51 Auditor’s fees
The following table shows the breakdown of the total fees paid to the auditor KPMG AG Wirtschaftsprüfungsgesellschaft in the reporting period:

(€ millions)

	2012	2011
Fees for		
Auditing of the financial statements	5	6
Other auditing services	2	2
Tax consulting services	—	—
Other services	16	8

52 Statement of Responsibility

HVB ensures that, to the extent of its shareholding, the companies set forth below are in a position to meet their contractual obligations except in the event of political risks:

1. Banks in Germany
Bankhaus Neelmeyer AG, Bremen
DAB Bank AG, Munich[1]
2. Banks in other regions
UniCredit Luxembourg S.A., Luxembourg
3. Financial companies
UniCredit Leasing GmbH, Hamburg
4. Companies with bank-related auxiliary services
HypoVereinsFinance N.V., Amsterdam

1 The company provides a Statement of Responsibility with the same wording for selected subsidiaries in its annual report.

HVB's commitment arising from the above Statement of Responsibility declines by the extent to which HVB's shareholding decreases in the future with regard to such commitments of the relevant company that did not arise until after HVB's shareholding decreased.

HVB no longer provides a Statement of Responsibility for companies which left HVB Group during an earlier financial year but for which a Statement of Responsibility had been provided in earlier annual reports. Liabilities of these companies arising after their departure from HVB Group are not covered by either the above Statement of Responsibility or by Statements of Responsibility provided earlier.

53 Key capital ratios

Pursuant to Section 10 (1d) KWG, equity capital for solvency purposes consists of the modified available capital and Tier III capital.

The modified available capital, consisting of core capital (Tier I) and supplementary capital (Tier II), totalled €20,608 million (2011: €22,594 million) at year-end. There was no Tier III capital. We have not allocated any unrealised reserves to supplementary capital compliant with Section 10 (2b) 1 No. 6 and 7 KWG.

The liable funds totalling €20,636 million (2011: €22,454 million) calculated in accordance with Section 10 (2) KWG are used primarily to determine thresholds for large exposures and loans to executive board members and for investment limits.

Other Information (Continued)

54 Derivative financial instruments

The following table provides detailed information about the nominal amount and fair values of all derivative transactions and credit derivative transactions of HVB:

Derivative transactions (€ millions)

	NOMINAL AMOUNT					FAIR VALUE[1]			
	RESIDUAL MATURITY			TOTAL	TOTAL	POSITIVE		NEGATIVE	
	UP TO 1 YEAR	MORE THAN 1 YEAR UP TO 5 YEARS	MORE THAN 5 YEARS	2012	2011	2012	2011	2012	2011
Interest rate derivatives	**1,034,437**	**1,169,440**	**935,977**	**3,139,854**	**3,331,143**	**96,358**	**101,279**	**95,987**	**100,297**
OTC products									
Forward rate agreements	190,361	6,165	—	196,526	145,485	72	68	43	33
Interest rate swaps	650,133	995,559	758,969	2,404,661	2,545,127	90,086	91,092	88,656	90,899
Interest rate options									
– purchased	44,547	88,221	86,126	218,894	265,072	5,620	9,852	240	103
– written	32,123	67,013	89,431	188,567	227,963	347	202	6,906	9,193
Other interest rate derivatives	27,017	—	—	27,017	24,430	233	64	142	69
Exchange-traded products									
Interest rate futures	40,668	11,885	1,208	53,761	63,131	—	—	—	—
Interest rate options	49,588	597	243	50,428	59,935	—	1	—	—
Foreign exchange derivatives	**203,846**	**29,805**	**582**	**234,233**	**323,886**	**2,979**	**5,472**	**2,948**	**6,007**
OTC products									
Foreign exchange forwards	165,572	21,635	116	187,323	219,782	2,413	4,058	2,306	4,599
Foreign exchange options									
– purchased	19,111	4,099	252	23,462	51,728	349	976	240	467
– written	19,145	4,071	214	23,430	52,342	217	438	402	941
Other foreign exchange derivatives	—	—	—	—	—	—	—	—	—
Exchange-traded products									
Foreign exchange futures	18	—	—	18	34	—	—	—	—
Foreign exchange options	—	—	—	—	—	—	—	—	—
Cross-currency swaps	**35,936**	**137,985**	**76,680**	**250,601**	**254,022**	**5,075**	**6,202**	**5,644**	**6,800**
Equity/index derivatives	**63,442**	**43,219**	**7,867**	**114,528**	**123,340**	**3,209**	**5,099**	**3,604**	**6,068**
OTC products									
Equity/index swaps	4,546	6,320	735	11,601	12,056	200	234	292	236
Equity/index options									
– purchased	8,529	8,721	359	17,609	23,752	1,268	2,581	32	4
– written	33,679	13,567	5,968	53,214	48,192	69	55	1,723	2,847
Other equity/index derivatives	2,169	1,220	—	3,389	2,353	212	192	1	2
Exchange-traded products									
Equity/index futures	2,751	7	—	2,758	5,179	—	—	—	—
Equity/index options	11,768	13,384	805	25,957	31,808	1,460	2,037	1,556	2,979
Credit derivatives	**52,457**	**86,508**	**6,062**	**145,027**	**222,915**	**1,592**	**5,384**	**1,486**	**5,434**
Other transactions	**3,670**	**2,981**	**722**	**7,373**	**9,169**	**210**	**1,161**	**263**	**1,408**
Total	**1,393,788**	**1,469,938**	**1,027,890**	**3,891,616**	**4,264,475**	**109,423**	**124,597**	**109,932**	**126,014**

1 in accordance with the provisions of Section 10 RechKredV, the positive and negative market values of OTC derivatives that offset each other at currency level were netted for OTC derivatives concluded with the same central counterparty

Most of the derivatives are held for trading purposes. The proportion of derivatives concluded for hedging purposes is insignificant.

The banking book contains derivatives with positive market values of €0.8 billion (2011: €0.7 billion) and negative market values of €1.0 billion (2011: €1.0 billion).

55 Employees

The average number of staff employed was as follows:

	2012	2011
Staff (excluding trainees)	15,657	15,947
of whom: full-time	11,930	12,283
part-time	3,727	3,664
Trainees	937	904

The staff's length of service was as follows: (in %)

	WOMEN	MEN	2012	2011
	(EXCLUDING TRAINEES)		TOTAL	
Staff's length of service				
25 years or more	19.6	22.2	20.8	19.0
15 to 25 years	35.9	24.2	30.5	30.3
10 to 15 years	12.2	11.6	12.0	13.1
5 to 10 years	22.1	25.0	23.4	22.2
less than 5 years	10.2	17.0	13.3	15.4

56 Emoluments

(€ thousands)

	FIXED COMPENSATION		PERFORMANCE-RELATED COMPONENTS		LONG-TERM INCENTIVES[2]		PENSION COMMITMENTS		TOTAL	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Management Board members of UniCredit Bank AG	4,513	4,327	910[1]	1,788[1]	1,479[3]	1,139[3]	1,071[4]	989[4]	7,973	8,243
Supervisory Board members of UniCredit Bank AG										
for Supervisory Board activities	558	558	210[5]	210[5]	—	—	—	—	768[5]	768[5]
Former members of the Management Board of										
UniCredit Bank AG and their surviving dependants	—	—	—	—	—	—	—	—	1,716[6]	1,653[6]
Transitional allowances for former members of										
the Management Board	—	—	—	—	—	—	—	—	—	—

1 the profit-related components are generally deferred over several years with disbursement in subsequent years dependent on defined company targets being achieved
2 cash value of the share-based compensation
3 prorated disclosure of the long-term incentive plans for 2005 to 2008 and the long-term incentive plan for a performance period of 2011 to 2013 and stock options (period of 2012 to 2015) and shares for the 2012 financial year
4 of which a prorated pension expense of €18,500 could not be posted until 2012
5 the performance-related component for the 2012 financial year totals €210 thousand, provided the Shareholders' Meeting adopts a resolution regarding the appropriation of net income as proposed. The performance-related component for the 2011 financial year totalled €210 thousand after the Shareholders' Meeting adopted a resolution regarding the appropriation of net income as proposed
6 an amount of €145 thousand was assumed in the 2012 financial year for some former executives within the framework of insurance benefits under a corporate Directors and Officers insurance policy, the accrued taxes and legal costs (2011: €147 thousand)

At 31 December 2012, there were pension provisions in the amount of €34,648 thousand (2011: €34,152 thousand) payable to former members of the Management Board, and retired members of the Management Board of HVB and their surviving dependants, as calculated in accordance with actuarial principles using the projected unit credit method, taking into account anticipated future rises in salaries and pensions.

Besides the direct remuneration shown in the table, Management Board members have received pension commitments. Six members of the Management Board took part in the employer-financed, fund-linked pension scheme for executives (known as AgfA) in 2012, which is also granted to the Bank's executives. The Bank will provide/has provided 35% of the fixed salary contributions (2012: €1,071 thousand (2011: €970 thousand). It has been agreed with the members of the Management Board that this amount of their pay would be converted, which means that, instead of a disbursed sum of money, the Management Board member receives a pension commitment to the same value from the Bank.

Other Information (Continued)

Share-based compensation was granted to the members of the Management Board in the reporting period in the form of stock options and performance shares. The stock options granted under the long-term incentive programme grant entitlement to purchase a UniCredit share at a price which was fixed before the option was issued. In the case of stock options issued during or after 2011, beneficiaries are only entitled to exercise their options in a range between 0% and 150% (depending on the level of target achievement) of the underlying total originally granted if the respective targets have been met after three years. A set number of UniCredit shares (performance shares) are transferred free of charge if, after a period of three years, the relevant targets have been met and the recipient is still working for UniCredit; otherwise, the performance shares are normally forfeited. Similarly in the case of performance shares issued during or after 2011, the actual number of shares transferred is in a range between 0% and 150% of the underlying total originally granted (depending on the level of target achievement).

Details of share-based compensation:

MEMBERS OF THE MANAGEMENT BOARD OF UNICREDIT BANK AG	Total
Options	
Stock options 2011	1,844,156[1]
Stock options 2012	708,781
Fair value per option (2011) on grant date (€)	0.6019
Fair value per option (2012) on grant date (€)	1.8670
Performance shares	
Performance shares 2011	826,517[1]
Performance shares 2012	187,869
Fair value per performance share (2011) on grant date (€)	1.712
Fair value per performance share (2012) on grant date (€)	4.010

1 long-term incentive: after no long-term incentive plan was set up for the 2010 financial year, this was carried out in 2011 with a performance period of 2011 to 2013

57 Loans to executive board members

Loans and advances made to, and contingent liabilities and liabilities assumed for, related parties at the reporting date were as follows: Members of the Supervisory Board and Management Board at HVB and their respective immediate family members are considered related parties.

(€ thousands)

	2012			2011		
	LOANS AND ADVANCES	CONTINGENT LIABILITIES	LIABILITIES	LOANS AND ADVANCES	CONTINGENT LIABILITIES	LIABILITIES
Members of the Management Board	1,180	6	4,623	1,233	7	4,915
Members of the Supervisory Board	2,752	23	3,664	2,955	—	5,410

Loans and advances were granted to members of the Management Board and their immediate family members in the form of mortgage loans with interest rates of between 2.5% and 3.96% and falling due in the period from 2013 to 2021.

Loans and advances were granted to members of the Supervisory Board and their immediate family members in the form of credit facilities with interest rates of between 6% and 11.15% with no fixed maturity and special credit facilities and mortgage loans with interest rates of between 1.9% and 5.25% and with no fixed maturity or falling due in 2021.

All banking transactions involving the group of people listed were conducted at customary market terms with the usual collateral.

58 Executive Boards

Supervisory Board

Federico Ghizzoni	**Chairman**
Peter König Dr Wolfgang Sprissler	**Deputy Chairmen**
Aldo Bulgarelli Beate Dura-Kempf Klaus Grünewald Werner Habich Dr Lothar Meyer Marina Natale Klaus-Peter Prinz Jens-Uwe Wächter Dr Susanne Weiss	**Members**

Management Board

Dr Andreas Bohn since 1 January 2013	**Business Segment Corporate & Investment Banking**[1]
Peter Buschbeck	**Family & SME division**[2] **Business Segment Private Clients Bank**[1]
Jürgen Danzmayr	**Private Banking division**[2] **Business Segment Private Clients Bank (Private Banking)**[1]
Lutz Diederichs	**Corporate & Investment Banking division**[2] **Business Segment Unternehmer Bank**[1]
Peter Hofbauer	**Chief Financial Officer (CFO)**
Heinz Laber	**Human Resources Management, Global Banking Services**
Andrea Umberto Varese	**Chief Risk Officer (CRO)**
Dr Theodor Weimer	**Board Spokesman**

1 since 14 January 2013
2 until 13 January 2013

List of Executives and Outside Directorships[1]

59 Supervisory Board

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Federico Ghizzoni Chief Executive Officer of UniCredit S.p.A., Milan Chairman		
Peter König Employee, UniCredit Bank AG, Haar-Salmdorf Deputy Chairman	BVV Pensionsfonds des Bankgewerbes AG, Berlin	BVV Versicherungsverein des Bankgewerbes a.G., Berlin BVV Versorgungskasse des Bankgewerbes e.V., Berlin
Dr Wolfgang Sprissler Former Board Spokesman of UniCredit Bank AG, Sauerlach Deputy Chairman	HFI Hansische Vermögensverwaltungs Aktiengesellschaft, Hamburg (Chairman)	UniCredit Bank Austria AG, Vienna Dr. Robert Pfleger Chemische Fabrik GmbH, Bamberg (Deputy Chairman)
Aldo Bulgarelli Attorney and partner in law office NCTM, Verona		AMMANN Italy S.p.A., Bussolengo (President of the Collegio Sindacale) ARAG Assicurazioni S.p.A., Verona (President of the Collegio Sindacale), until 31 December 2012
Beate Dura-Kempf Employee, UniCredit Bank AG, Litzendorf		
Klaus Grünewald FB1 unit manager in the Bavarian division of Vereinte Dienstleistungsgewerkschaft, Gröbenzell	Fiducia IT AG, Karlsruhe	

1 as of 31 December 2012

NAME OCCUPATION PLACE OF RESIDENCE	POSITIONS[1] ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS[1] ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Werner Habich Employee, UniCredit Bank AG, Mindelheim		
Dr Lothar Meyer Former Chairman of the Managment Board of ERGO Versicherungsgruppe AG, Bergisch Gladbach	ERGO Versicherungsgruppe AG, Düsseldorf Jenoptik AG, Jena, until 6 June 2012	
Marina Natale Chief Financial Officer of UniCredit S.p.A., member of the Executive Management Committee of UniCredit S.p.A., Uboldo		Pioneer Asset Global Management S.p.A., Milan[2]
Klaus-Peter Prinz Employee, UniCredit Luxembourg S. A., Trier		
Jens-Uwe Wächter Employee, UniCredit Bank AG, Himmelpforten		HypoVereinsbank Betriebskrankenkasse (HVB BKK), Munich (Chairman, since 1 January 2013)
Dr Susanne Weiss Attorney and partner in law office Weiss, Walter, Fischer-Zernin, Munich	Giesecke & Devrient GmbH, Munich ROFA AG, Kolbermoor (Chairman) Wacker Chemie AG, Munich	Allgemeine Baugesellschaft – A. Porr AG, Vienna

1 as of 31 December 2012
2 Group directorship

List of Executives and Outside Directorships[1] (Continued)

60 Management Board

NAME	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER GERMAN COMPANIES	POSITIONS ON COMPARABLE BOARDS OF GERMAN AND FOREIGN COMPANIES
Dr Andreas Bohn born 1963 since 1 January 2013 Business Segment Corporate & Investment Banking[4]	HVB Capital Partners AG, Munich (Chairman)[2]	FSL Holdings Pte. Ltd., Singapore HVB Principal Equity GmbH, Munich (Chairman)[2] Tikehau Investment Management S.A.S., Paris
Peter Buschbeck born 1961 Family & SME division[3], Business Segment Private Clients Bank[4]	Bankhaus Neelmeyer AG, Bremen (Chairman)[2] DAB Bank AG, Munich[2] PlanetHome AG, Unterföhring near Munich (Chairman)[2] UniCredit Direct Services GmbH, Munich (Chairman)[2]	Wealth Management Capital Holding GmbH, Munich[2] (Chairman since 1 January 2013) UniCredit Global Business Services GmbH, Munich[2]
Jürgen Danzmayr born 1950 Private Banking division[3], Business Segment Private Clients Bank (Private Banking)[4]		Schoellerbank AG, Vienna Wealth Management Capital Holding GmbH, Munich (Chairman until 31 December 2012)[2] UniCredit Luxembourg S.A., Luxembourg[2], since 31 August 2012
Lutz Diederichs born 1962 Corporate & Investment Banking division[3] Business Segment Unternehmer Bank[4]		UniCredit Leasing S.p.A, Bologna, until 20 April 2012 UniCredit Luxembourg S.A., Luxembourg[2], since 31 August 2012 UniCredit Leasing Finance GmbH, Hamburg, since 15 February 2013 (Chairman)[2] UniCredit Leasing GmbH, Hamburg, since 15 February 2013 (Chairman)[2]
Peter Hofbauer born 1964 Chief Financial Officer (CFO)	HVB Immobilien AG, Munich (Deputy Chairman)[2] HVB Trust Pensionsfonds AG, Munich (Deputy Chairman)	UniCredit Global Business Services GmbH, Munich[2] Wealth Management Capital Holding GmbH, Munich (Deputy Chairman)[2] Wietersdorfer Industrie-Beteiligungs-GmbH, Klagenfurt, until 10 August 2012 Wietersdorfer Rohrbeteiligungs GmbH, Klagenfurt, until 10 August 2012
Heinz Laber born 1953 Human Resources Management, Global Banking Services	HVB Immobilien AG, Munich (Chairman)[2] HVB Trust Pensionsfonds AG, Munich (Chairman) Internationales Immobilien-Institut GmbH, Munich[2]	BVV Versicherungsverein des Bankgewerbes a.G., Berlin (Chairman) UniCredit Business Partner Società Consortile per Azioni, Cologno Monzese, until 1 January 2012 UniCredit Global Business Services GmbH, Munich (Chairman)[2]
Andrea Umberto Varese born 1964 Chief Risk Officer (CRO)	HVB Immobilien AG, Munich[2]	UniCredit Credit Management Bank S.p.A., Verona UniCredit Global Business Services GmbH, Munich[2] UniCredit Luxembourg S.A., Luxembourg (Deputy Chairman)[2] Wealth Management Capital Holding GmbH, Munich[2]
Dr Theodor Weimer born 1959 Board Spokesman	Bayerische Börse AG, Munich DAB Bank AG, Munich (Chairman)[2] ERGO Versicherungsgruppe AG, Düsseldorf	UniCredit Luxembourg S.A., Luxembourg (Chairman)[2]

1 as of 31 December 2012
2 Group directorship
3 until 13 January 2013
4 since 14 January 2013

61 List of employees and outside directorships[1]

NAME	POSITIONS ON STATUTORY SUPERVISORY BOARDS OF OTHER COMPANIES
Matthias Biebl	Wacker Chemie AG, Munich
Thomas Breiner	AGROB Immobilien AG, Ismaning[2]
Dr Jochen Fischer	Bankhaus Neelmeyer AG, Bremen[2] PlanetHome AG, Unterföhring near Munich[2]
Matthias Glückert	Oechsler AG, Ansbach
Wolfgang Hamann	Bankhaus Neelmeyer AG, Bremen[2]
Christian Klatt	Bankhaus Neelmeyer AG, Bremen[2]
Dr Andreas Luber	ConCardis GmbH, Eschborn
Jörg Pietzner	Bankhaus Neelmeyer AG, Bremen[2]
Dr Guido Schacht	AVAG Holding SE, Augsburg
Heike Wagner	WABCO GmbH, Hanover WABCO Holding GmbH, Hanover
Peter Weidenhöfer	AGROB Immobilien AG, Ismaning[2]

1 as of 31 December 2012
2 Group directorship

List of Holdings

Compliant with Section 313 (2) German Commercial Code for the consolidated financial statements and Section 285 No. 11 and 11a German Commercial Code for the annual financial statements of UniCredit Bank AG

62 List of Holdings

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
1 Subsidiaries of HVB Group						
1.1 Consolidated subsidiaries						
1.1.1 Banks						
1.1.1.1 Domestic banks and financial institutions						
Bankhaus Neelmeyer AG	Bremen	100.0		EUR	40,400	[1.1]
DAB Bank AG	Munich	79.5		EUR	174,196	17,997
UniCredit Leasing Finance GmbH	Hamburg	100.0	100.0	EUR	27,013	[2]
1.1.1.2 Foreign banks and financial institutions						
direktanlage.at AG	Salzburg	100.0	100.0	EUR	26,579	4,766
UniCredit Luxembourg S.A.	Luxembourg	100.0		EUR	1,309,510	180,888
1.1.2 Other consolidated companies						
Acis Immobilien- und Projektentwicklungs GmbH & Co. Oberbaum City KG[3]	Grünwald	100.0	100.0	EUR	27	688
Acis Immobilien- und Projektentwicklungs GmbH & Co. Parkkolonnaden KG[3]	Grünwald	100.0	100.0	EUR	28	865
Acis Immobilien- und Projektentwicklungs GmbH & Co. Stuttgart Kronprinzstraße KG[3]	Grünwald	100.0	100.0	EUR	35	2,967
Active Asset Management GmbH	Grünwald	100.0	100.0	EUR	208	(8)
AGROB Immobilien AG (share of voting rights: 75.0%)[4]	Ismaning	52.7	52.7	EUR	20,693	1,602
Antus Immobilien- und Projektentwicklungs GmbH	Munich	90.0	90.0	EUR	(16,872)	0
Argentaurus Immobilien-Vermietungs- und Verwaltungs GmbH[3]	Munich	100.0	100.0	EUR	793	[2]
ARRONDA Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(45,452)	975
Atlanterra Immobilienverwaltungs GmbH	Munich	90.0	90.0	EUR	(39,212)	0
A&T-Projektentwicklungs GmbH & Co. Potsdamer Platz Berlin KG[3]	Munich	100.0	100.0	EUR	(37,260)	5
Aufbau Dresden GmbH	Munich	100.0	100.0	EUR	(23,944)	0
BaLea Soft GmbH & Co. KG	Hamburg	100.0	100.0	EUR	5,914	(96)
BaLea Soft Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0	EUR	85	2
Bank Austria ImmobilienService GmbH	Vienna	100.0	100.0	EUR	273	256
B.I. International Limited	George Town	100.0	100.0	EUR	(949)	(102)
BIL Immobilien Fonds GmbH & Co Objekt Perlach KG[3]	Munich	100.0	100.0	EUR	2,778	(544)
BIL Leasing-Fonds GmbH & Co VELUM KG (share of voting rights: 66.7% total, of which 33.3% held indirectly)	Munich	100.0		EUR	(2)	0
BIL Leasing-Fonds Verwaltungs-GmbH	Munich	100.0	100.0	EUR	33	0
Blue Capital Europa Immobilien GmbH & Co. Achte Objekte Großbritannien KG	Hamburg	100.0	100.0	EUR	(2,363)	(3,744)
BV Grundstücksentwicklungs-GmbH[3]	Munich	100.0	100.0	EUR	511	[2]
BV Grundstücksentwicklungs-GmbH & Co. Verwaltungs-KG[3]	Munich	100.0		EUR	511	145
CUMTERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	26	[2]
Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Alpha Management KG[3]	Munich	100.0	100.0	EUR	(22,880)	0
Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Beta Management KG[3]	Munich	100.0	100.0	EUR	(53,477)	0
Delpha Immobilien- und Projektentwicklungs GmbH & Co. Großkugel Bauabschnitt Gamma Management KG[3]	Munich	100.0	100.0	EUR	(59,493)	0
Enderlein & Co. GmbH	Bielefeld	100.0	100.0	EUR	114	[2]
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co. Windpark Grefrath KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	455	28
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co. Windpark Krähenberg KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	(1,628)	(58)
Erste Onshore Windkraft Beteiligungsgesellschaft mbH & Co. Windpark Mose KG (share of voting rights: 68.3%)	Oldenburg	68.5	68.5	EUR	486	100

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
Food & more GmbH	Munich	100.0		EUR	177	[1.2]
GIMMO Immobilien-Vermietungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[2]
Golf- und Country Club Seddiner See Immobilien GmbH	Munich	100.0	100.0	EUR	(15,507)	0
Grand Central Re Limited	Hamilton	92.5		USD	46,419	(2,850)
Grundstücksaktiengesellschaft am Potsdamer Platz						
(Haus Vaterland)	Munich	98.2	98.2	EUR	4,495	[2]
Grundstücksgesellschaft Simon						
beschränkt haftende Kommanditgesellschaft[3]	Munich	100.0	100.0	EUR	52	1,355
H & B Immobilien GmbH & Co. Objekte KG[3]	Munich	100.0	100.0	EUR	5	140
HAWA Grundstücks GmbH & Co. OHG Hotelverwaltung[3]	Munich	100.0	100.0	EUR	276	(296)
HAWA Grundstücks GmbH & Co. OHG Immobilienverwaltung[3]	Munich	100.0	100.0	EUR	54	324
H.F.S. Hypo-Fondsbeteiligungen für Sachwerte GmbH	Munich	100.0	90.0	EUR	5,101	[2]
H.F.S. Immobilienfonds GmbH	Ebersberg	100.0	100.0	EUR	26	[2]
HJS 12 Beteiligungsgesellschaft mbH	Munich	100.0		EUR	274	(2)
HVB Alternative Advisors LLC	Wilmington	100.0		USD	6,783	(387)
HVB Asia Limited	Singapore	100.0		EUR	3,650	(3)
HVB Asset Leasing Limited	London	100.0	100.0	USD	145	(46)
HVB Asset Management Holding GmbH	Munich	100.0	100.0	EUR	25	[2]
HVB Capital LLC	Wilmington	100.0		USD	1,128	87
HVB Capital LLC II	Wilmington	100.0		GBP	2	0
HVB Capital LLC III	Wilmington	100.0		USD	1,107	90
HVB Capital LLC VI	Wilmington	100.0		JPY	275	7
HVB Capital Partners AG	Munich	100.0		EUR	12,671	[1.3]
HVB Expertise GmbH	Munich	100.0		EUR	1,117	88
HVB Export Leasing GmbH	Munich	100.0		EUR	39	(5)
HVB Finance London Limited	London	100.0		EUR	930	(18)
HVB Funding Trust II	Wilmington	100.0		GBP	2	0
HVB Gesellschaft für Gebäude Beteiligungs GmbH	Munich	100.0		EUR	27	2
HVB Gesellschaft für Gebäude mbH & Co KG[3]	Munich	100.0		EUR	871,401	42,998
HVB Global Assets Company (GP), LLC	City of Dover	100.0		USD	142	4
HVB Global Assets Company, L.P.[5]	City of Dover	5.0		USD	1,035,121	38,481
HVB Hong Kong Limited	Hong Kong	100.0		USD	4,418	114
HVB Immobilien AG[3]	Munich	100.0		EUR	86,644	[1.4]
HVB Investments (UK) Limited	George Town	100.0		GBP	220	924
HVB Life Science GmbH & Co. Beteiligungs-KG	Munich	100.0		EUR	1,020	(5)
HVB London Investments (AVON) Limited	London	100.0		GBP	2,545	5
HVB London Investments (CAM) Limited	London	100.0		GBP	120	0
HVB Principal Equity GmbH[3]	Munich	100.0		EUR	34	[1.5]
HVB Profil Gesellschaft für Personalmanagement mbH[3]	Munich	100.0		EUR	28	[1.6]
HVB Projekt GmbH[3]	Munich	100.0	94.0	EUR	72,151	[2]
HVB Realty Capital Inc.	New York	100.0	100.0	USD	0	0
HVB Secur GmbH	Munich	100.0	100.0	EUR	115	3
HVB Tecta GmbH[3]	Munich	100.0	94.0	EUR	1,751	[2]
HVB Verwa 1 GmbH	Munich	100.0		EUR	41	[1.7]
HVB Verwa 4 GmbH	Munich	100.0		EUR	10,132	[1.8]
HVB Verwa 4.4 GmbH[3]	Munich	100.0	100.0	EUR	10,025	[2]
HVBFF International Greece GmbH[4]	Munich	100.0	100.0	EUR	(674)	(232)
HVBFF Internationale Leasing GmbH	Munich	100.0	100.0	EUR	10	(1)
HVBFF Objekt Beteiligungs GmbH	Munich	100.0	100.0	EUR	43	3
HVBFF Produktionshalle GmbH i.L.	Munich	100.0	100.0	EUR	20	0
HVZ GmbH & Co. Objekt KG[3]	Munich	100.0	100.0	EUR	148,091	3,728
Hypo-Bank Verwaltungszentrum GmbH	Munich	100.0	100.0	EUR	16	7
Hypo-Bank Verwaltungszentrum GmbH & Co. KG						
Objekt Arabellastraße[3]	Munich	100.0	100.0	EUR	26	20,506

List of Holdings (Continued)

		SHARE OF CAPITAL IN %			EQUITY CAPITAL	NET PROFIT
NAME	REGISTERED OFFICE	TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	in thousands of currency units	in thousands of currency units
HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH & Co.						
Immobilien-Vermietungs KG[3]	Munich	80.0	80.0	EUR	(850)	0
HypoVereinsFinance N.V.	Amsterdam	100.0		EUR	2,229	140
Internationales Immobilien-Institut GmbH	Munich	94.0		EUR	13,126	4,935
Interra Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	51	[2]
Keller Crossing L.P.	Wilmington	100.0	100.0	USD	1,663	190
Kinabalu Financial Products LLP	London	100.0		GBP	884	(26)
Kinabalu Financial Solutions Limited	London	100.0		GBP	3,998	221
Life Management Erste GmbH	Munich	100.0	100.0	EUR	24	[2]
Life Management Zweite GmbH	Grünwald	100.0	100.0	EUR	26	[2]
Life Science I Beteiligungs GmbH	Munich	100.0	100.0	EUR	(167)	199
MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung[3]	Munich	100.0		EUR	16,692	[1,9]
MILLETERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	100.0	EUR	25	[2]
Mobility Concept GmbH	Oberhaching	60.0	60.0	EUR	4,381	2,753
Movie Market Beteiligungs GmbH	Munich	100.0	100.0	EUR	17	6
NF Objekt FFM GmbH[3]	Munich	100.0	100.0	EUR	125	[2]
NF Objekt München GmbH[3]	Munich	100.0	100.0	EUR	75	[2]
NF Objekte Berlin GmbH[3]	Munich	100.0	100.0	EUR	15,725	[2]
NXP Co-Investment Partners VIII, L.P.	London	85.0	85.0	EUR	9,987	2,507
Ocean Breeze Asset GmbH & Co. KG	Munich	100.0	100.0	EUR	0	(4)
Ocean Breeze Energy GmbH & Co. KG[3]	Munich	100.0	100.0	EUR	(59,519)	(11,291)
Ocean Breeze GmbH	Munich	100.0	100.0	EUR	23	(1)
Omnia Grundstücks-GmbH & Co.						
Objekt Eggenfeldener Straße KG[3]	Munich	100.0	94.0	EUR	26	0
Omnia Grundstücks-GmbH & Co. Objekt Haidenauplatz KG[3]	Munich	100.0	94.0	EUR	26	139
Orestos Immobilien-Verwaltungs GmbH[3]	Munich	100.0	100.0	EUR	56,674	[2]
Othmarschen Park Hamburg GmbH & Co. Centerpark KG[3]	Munich	100.0	100.0	EUR	(18,942)	0
Othmarschen Park Hamburg GmbH & Co. Gewerbepark KG[3]	Munich	100.0	100.0	EUR	(44,083)	0
Perikles 20092 Vermögensverwaltung GmbH	Munich	100.0	100.0	EUR	23	(1)
PlanetHome AG	Unterföhring	100.0		EUR	26,363	1,687
PlanetHome GmbH	Mannheim	100.0	100.0	EUR	560	405
Portia Grundstücks-Verwaltungsgesellschaft mbH & Co.						
Objekt KG[3]	Munich	100.0	100.0	EUR	500,014	(30,246)
“Portia” Grundstücksverwaltungs-Gesellschaft						
mit beschränkter Haftung	Munich	100.0	100.0	EUR	29	3
Redstone Mortgages Limited	London	100.0		GBP	(301,619)	10,636
RHOTERRA Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	26	[2]
Roncasa Immobilien-Verwaltungs GmbH	Munich	90.0	90.0	EUR	(39,995)	975
Salvatorplatz-Grundstücksgesellschaft mbH	Munich	100.0	100.0	EUR	711	[2]
Salvatorplatz-Grundstücksgesellschaft mbH & Co.						
OHG Saarland[3]	Munich	100.0	100.0	EUR	1,534	(19)
Salvatorplatz-Grundstücksgesellschaft mbH & Co.						
OHG Verwaltungszentrum[3]	Munich	100.0	100.0	EUR	2,301	5,123
Selfoss Beteiligungsgesellschaft mbH[3]	Grünwald	100.0	100.0	EUR	13	[2]
Simon Verwaltungs-Aktiengesellschaft i.L.[4]	Munich	<100.0		EUR	3,129	(1)
Sirius Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0	EUR	(143,835)	[2]
SOLARIS Verwaltungsgesellschaft mbH & Co. Vermietungs KG[3]	Munich	94.9	94.9	EUR	0	0
Solos Immobilien- und Projektentwicklungs GmbH & Co.						
Sirius Beteiligungs KG[3]	Munich	100.0	100.0	EUR	(35,748)	900
Spree Galerie Hotelbetriebsgesellschaft mbH[3]	Munich	100.0	100.0	EUR	249	[2]
Status Vermögensverwaltung GmbH[3]	Schwerin	100.0		EUR	2,108	[1,10]
Structured Invest Société Anonyme	Luxembourg-Kirchberg	100.0		EUR	8,794	432
Structured Lease GmbH	Hamburg	100.0	100.0	EUR	750	[2]
T & P Frankfurt Development B.V.	Amsterdam	100.0	100.0	EUR	(6,991)	(5)
T & P Vastgoed Stuttgart B.V.	Amsterdam	87.5	87.5	EUR	(15,467)	(18)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
TERRENO Grundstücksverwaltung GmbH & Co.						
Entwicklungs- und Finanzierungsvermittlungs-KG[3]	Munich	75.0	75.0	EUR	(268,579)	0
Terronda Development B.V.	Amsterdam	100.0	100.0	EUR	(401)	(14)
TIVOLI Grundstücks-Aktiengesellschaft	Munich	99.7	99.7	EUR	13,366	5,850
Transterra Gesellschaft für Immobilienverwaltung mbH[3]	Munich	100.0	93.8	EUR	26	[2]
TRICASA Grundbesitz Gesellschaft mbH & Co.						
1. Vermietungs KG[3]	Munich	100.0	100.0	EUR	6,804	2,507
TRICASA Grundbesitzgesellschaft des bürgerlichen Rechts Nr. 1	Munich	100.0	100.0	EUR	17,142	(43)
Trinitrade Vermögensverwaltungs-Gesellschaft						
mit beschränkter Haftung	Munich	100.0		EUR	1,323	1
UniCredit Beteiligungs GmbH	Munich	100.0		EUR	1,147	[1.11]
UniCredit CAIB Securities UK Ltd.	London	100.0		GBP	454	3
UniCredit Capital Markets LLC	New York	100.0	100.0	USD	321,425	460
UniCredit (China) Advisory Limited	Beijing	100.0		CNY	1,830	271
UniCredit Direct Services GmbH[3]	Munich	100.0		EUR	881	[1.12]
UniCredit Global Business Services GmbH	Munich	100.0		EUR	5,818	4,138
UniCredit Leasing Aviation GmbH	Hamburg	100.0	100.0	EUR	(3,438)	(3,943)
UniCredit Leasing GmbH	Hamburg	100.0		EUR	162,026	[1.13]
UniCredit London Investments Limited	London	100.0		EUR	2	0
UniCredit Merchant Partners GmbH	Munich	100.0		EUR	1,000	[1.14]
UniCredit U.S. Finance LLC	Wilmington	100.0		USD	339,382	661
US Property Investments Inc.	Dallas	100.0		USD	671	35
Verba Verwaltungsgesellschaft mbH	Munich	100.0		EUR	761	(3)
Verwaltungsgesellschaft Katharinenhof mbH[3]	Munich	100.0		EUR	708	[1.15]
V.M.G. Vermietungsgesellschaft mbH	Munich	100.0	100.0	EUR	26	[2]
VuWB Investments Inc.	Atlanta	100.0	100.0	USD	113	(7)
Wealth Capital Investments, Inc.	Wilmington	100.0	100.0	USD	1,441	(491)
Wealth Management Capital Holding GmbH	Munich	100.0		EUR	20,475	[1,16]
WealthCap Equity GmbH	Munich	100.0	100.0	EUR	11,399	13,270
WealthCap Equity Management GmbH	Munich	100.0	100.0	EUR	2,335	2,312
WealthCap Fonds GmbH	Munich	100.0	100.0	EUR	745	233
WealthCap Initiatoren GmbH	Hamburg	100.0	100.0	EUR	13,771	12,237
WealthCap Investorenbetreuung GmbH	Munich	100.0	100.0	EUR	155	[2]
WealthCap Leasing GmbH	Grünwald	100.0	100.0	EUR	(8)	(6)
WealthCap PEIA Komplementär GmbH	Grünwald	100.0	100.0	EUR	29	(18)
WealthCap PEIA Management GmbH	Munich	100.0	94.0	EUR	1,770	724
WealthCap Real Estate Management GmbH	Munich	100.0	100.0	EUR	108	[2]
WealthCap Stiftungstreuhand GmbH	Munich	100.0	100.0	EUR	37	4
WealthCap USA Immobilien Verwaltungs GmbH	Munich	100.0	100.0	EUR	109	59
1.2 Non-consolidated subsidiaries						
of HVB Group[6]						
Other non-consolidated subsidiaries						
Acis Immobilien- und Projektentwicklungs GmbH	Grünwald	100.0	100.0	EUR	25	[2]
AGRUND Grundstücks-GmbH	Munich	90.0	90.0			
Alexandersson Real Estate I B.V.	Apeldoorn	100.0	100.0			
"Alte Schmelze" Projektentwicklungsgesellschaft mbH	Munich	100.0	100.0			
Altea Verwaltungsgesellschaft mbH & Co. Objekt I KG	Munich	100.0	100.0			
AMMS Ersatz-Komplementär GmbH	Ebersberg	100.0	100.0			
AMMS Komplementär GmbH	Ebersberg	98.8	98.8	EUR	254	228
ANWA Gesellschaft für Anlagenverwaltung mbH	Munich	95.0	93.8			
Apir Verwaltungsgesellschaft mbH & Co.						
Immobilien- und Vermietungs KG	Munich	100.0	100.0	EUR	(21,723)	947
Arena Stadion Beteiligungsverwaltungs-GmbH	Munich	100.0				
Argentum Media GmbH & Co. KG	Munich	100.0				
A&T-Projektentwicklungs-Verwaltungs GmbH	Munich	100.0	100.0			

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	SHARE OF CAPITAL IN % OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
Bavaria Servicos de Representacao Comercial Ltda.	Sao Paulo	100.0				
Bayerische Wohnungsgesellschaft für Handel und Industrie, Gesellschaft mit beschränkter Haftung	Munich	100.0	100.0	EUR	294	[2]
BFL Beteiligungsgesellschaft für Flugzeug-Leasing mbH	Munich	100.0				
BIL Aircraftleasing GmbH	Grünwald	100.0	100.0			
BIL Immobilien Fonds GmbH	Munich	100.0	100.0			
Blue Capital Metro Amerika Inc.	Atlanta	100.0	100.0			
BV Grundstücksentwicklungs-GmbH & Co. Schloßberg-Projektentwicklungs-KG	Munich	100.0	100.0			
CL Dritte Car Leasing GmbH & Co. KG	Hamburg	100.0	100.0			
CL Dritte Car Leasing Verwaltungsgesellschaft mbH	Hamburg	100.0	100.0			
Deltaterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	93.8	EUR	26	[2]
Euro-Bond Blue Capital Management GmbH i.L.	Bad Soden	100.0	100.0			
Euro-Bond Blue Capital Verwaltungs GmbH i.L.	Bad Soden	100.0	100.0			
Ferra Immobilien- und Projektentwicklungs GmbH & Co. Projekt Großenhainer Straße KG	Munich	100.0	100.0	EUR	(11,633)	750
FGB Grund und Boden GmbH & Co. KG	Munich	94.0	94.0	EUR	(4,002)	0
GCCS Golfanlagen Errichtungs- und Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	[2]
Großkugel Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0	EUR	(3,354)	[2]
H.F.S. Immobilienfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 3 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 4 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 6 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 7 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 8 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 9 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 10 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 11 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 12 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 15 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 16 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 18 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds Deutschland 19 GmbH & Co. KG	Munich	100.0	100.0	EUR	(2)	1,390
H.F.S. Immobilienfonds Europa 2 Beteiligungs GmbH	Munich	100.0	100.0			
H.F.S. Immobilienfonds Europa 3 Beteiligungs B.V.	The Hague	100.0	100.0			
H.F.S. Immobilienfonds Europa 3 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Immobilienfonds GmbH & Co. Europa 4 KG	Munich	100.0	100.0			
H.F.S. Istanbul 1 Gayrimenkul Yönetimi Limited Sirketi	Istanbul	100.0	100.0			
H.F.S. Istanbul 2 Gayrimenkul Yönetimi Limited Sirketi	Istanbul	100.0	100.0			
H.F.S. Leasingfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Leasingfonds Deutschland 7 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Leasingfonds GmbH	Ebersberg	100.0	100.0			
H.F.S. Value Management GmbH	Munich	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 1 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 2 Komplementär GmbH	Grünwald	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 3 GmbH & Co. KG	Munich	100.0	100.0			
H.F.S. Zweitmarktfonds Deutschland 4 GmbH & Co. KG	Munich	100.0	100.0			
Hofgarten Real Estate B.V. (share of voting rights: 50.5%)	Amsterdam	47.2	47.2	EUR	(49,178)	(31)
Hotel Seddiner See GmbH	Munich	100.0	100.0			
HVB Life Science GmbH	Munich	100.0				
HVBFF Baumanagement GmbH	Munich	100.0	100.0	EUR	50	[2]
HVBFF Kapitalvermittlungs GmbH	Munich	100.0	100.0	EUR	19	[2]
HVBFF Leasing & Investition GmbH & Co Erste KG	Munich	100.0	100.0			
HVBFF Leasing Objekt GmbH	Munich	100.0	100.0			
HVBFF Leasing-Fonds Verwaltungs GmbH	Munich	100.0	100.0			

		SHARE OF CAPITAL IN %			EQUITY CAPITAL	NET PROFIT
NAME	REGISTERED OFFICE	TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	in thousands of currency units	in thousands of currency units
HVBFF Objekt Leipzig GmbH	Leipzig	70.0	70.0			
HVB London Trading Ltd.	London	100.0				
HVB Mortgage Capital Corp.	Wilmington	100.0	100.0			
HVB Services South Africa (Proprietary) Limited	Johannesburg	100.0				
HVZ GmbH & Co. Objekt Unterföhring KG	Munich	100.0	100.0			
HYPO-REAL Haus- und Grundbesitz Gesellschaft mbH	Munich	100.0	100.0	EUR	128	2
KHR Projektentwicklungsgesellschaft mbH & Co.						
Objekt Bornitzstraße I KG	Munich	100.0	100.0			
KHR Projektentwicklungsgesellschaft mbH & Co.						
Objekt Bornitzstraße II KG	Munich	100.0	100.0	EUR	(313)	973
KHR Projektentwicklungsgesellschaft mbH & Co.						
Objekt Bornitzstraße III KG	Munich	100.0	100.0	EUR	(3,481)	(2)
KHR Projektentwicklungsgesellschaft mbH & Co.						
Objekt Bornitzstraße KG	Munich	100.0	100.0			
Landos Immobilien- und Projektentwicklungs GmbH	Munich	100.0	100.0			
Life Britannia GP Limited	Edgware	100.0	100.0			
Life Britannia Management GmbH	Grünwald	100.0	100.0			
Life Verwaltungs Erste GmbH	Munich	100.0	100.0			
Life Verwaltungs Zweite GmbH	Grünwald	100.0	100.0			
Motion Picture Production GmbH	Grünwald	51.2	51.2			
Mutnegra Beteiligungs- und Verwaltungs-GmbH	Munich	100.0				
Olos Immobilien- und Projektentwicklungs GmbH & Co.						
Grundstücksentwicklungs KG	Munich	100.0	100.0	EUR	26	387
Olos Immobilien- und Projektentwicklungs GmbH & Co.						
Vermietungs KG	Munich	100.0	100.0			
Omnia Grundstücks-GmbH	Munich	100.0	100.0	EUR	26	2
Omnia Grundstücks-GmbH & Co. Betriebs KG	Munich	100.0	94.0			
Omnia Grundstücks-GmbH & Co. Objekt Ostragehege KG	Munich	100.0	94.0			
Othmarschen Park Hamburg Wohn- und Gewerbepark GmbH	Munich	100.0	100.0	EUR	102	2
Pegasus Project Stadthaus Halle GmbH	Munich	100.0	93.8	EUR	26	2
Perterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	2
Projekt-GbR Kronstadter Straße München	Munich	75.0	75.0	EUR	0	975
Quinterra Gesellschaft für Immobilienverwaltung mbH	Munich	100.0	100.0	EUR	26	2
Rolin Grundstücksplanungs-						
und -verwaltungsgesellschaft mbH	Munich	100.0	100.0			
Rotus Immobilien-Verwaltungs GmbH	Munich	100.0	100.0	EUR	26	2
Saphira Immobilien- und Projektentwicklungs GmbH & Co.						
Frankfurt City West Office Center und Wohnbau KG	Munich	100.0	100.0			
Schloßberg-Projektentwicklungs-GmbH & Co 683 KG	Munich	100.0	100.0			
TERRENO Grundstücksverwaltung GmbH	Munich	75.0	75.0			
TERRENO Grundstücksverwaltung GmbH & Co.						
Objektgesellschaft Grillparzerstraße KG	Munich	75.0		EUR	(3,002)	775
Tishman Speyer Berlin Friedrichstraße KG i.L. (share of						
voting rights: 96.6% total, of which 7.1% held indirectly)	Berlin	97.1	5.9			
VCI Volta Center Immobilienverwaltungs GmbH	Munich	100.0	100.0	EUR	(26,783)	933
VereinWest Overseas Finance (Jersey) Limited	St. Helier	100.0				
Vintners London Investments (Nile) Limited	George Town	100.0	100.0			
WCREM Canadian Investments Inc.	Toronto	100.0	100.0			
WCREM Canadian Management Inc.	Toronto	100.0	100.0			
Wealth Capital Management, Inc.	Wilmington	100.0	100.0	USD	290	(671)
WealthCap Aircraft 25 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Dritte Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Entity Service GmbH	Munich	100.0	100.0			
WealthCap Equity Sekundär GmbH	Munich	100.0	100.0			
WealthCap Erste Kananda Immobilien Verwaltung GmbH	Munich	100.0	100.0			

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
WealthCap Europa Erste Immobilien – Objekt Niederlande –						
Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Europa Immobilien						
Fünfte Objekte Österreich Komplementär GmbH	Grünwald	100.0	100.0			
WealthCap Europa Immobilien						
Siebte Objekte Österreich Komplementär GmbH	Munich	100.0	100.0			
WealthCap Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Immobilien und Verwaltung Sekundär GmbH	Munich	100.0	100.0			
WealthCap Immobilienfonds Deutschland 35 GmbH & Co. KG						
(share of voting rights: 75.0%)	Munich	50.0	50.0			
WealthCap Immobilienfonds Deutschland 36 GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Immobilienfonds Deutschland 36						
Komplementär GmbH	Munich	100.0	100.0			
WealthCap Leasing 1 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Objekt Berg-am-Laim GmbH & Co. KG	Munich	100.0	100.0			
WealthCap Objekt Theresienhöhe GmbH & Co. KG	Munich	100.0	100.0			
WealthCap PEIA Sekundär GmbH	Munich	100.0	100.0			
WealthCap Private Equity GmbH	Munich	100.0	100.0			
WealthCap Private Equity Sekundär GmbH	Munich	100.0	100.0			
WealthCap Private Equity 17 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Private Equity 18 GmbH & Co. KG	Grünwald	100.0	100.0			
WealthCap Real Estate GmbH	Munich	100.0	100.0			
WealthCap Real Estate Komplementär GmbH	Munich	100.0	100.0			
WealthCap Real Estate Sekundär GmbH	Munich	100.0	100.0			
WealthCap Zweite Europa Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap Zweite USA Immobilien Verwaltungs GmbH	Munich	100.0	100.0			
WealthCap ZweitmarktWerte Immobilien 4 Komplementär GmbH	Munich	100.0	100.0			
Wertweiser GmbH	Munich	100.0	100.0			
2 Joint ventures[6]						
Minor joint ventures						
Other companies						
Heizkraftwerk Cottbus Verwaltungs GmbH	Munich	33.3				
Heizkraftwerke-Pool Verwaltungs-GmbH	Munich	33.3		EUR	104	781
3 Associated companies						
3.1 Associated companies valued at equity						
Other companies						
Adler Funding LLC	Dover	32.8		USD	(5,519)	(5,833)
Bulkmax Holding Ltd.	Valletta	45.0	45.0	USD	8,799	(154)
Comtrade Group B.V.	Amsterdam	21.1	21.1	EUR	14,387	954
Martur Sünger ve Koltuk Tesisleri Ticaret ve Sanayi A.S.	Istanbul	20.0	20.0	TRY	164,915	59,425
Nautilus Tankers Limited	Valletta	45.0	45.0	USD	21,469	(37)
3.2 Minor associated companies[6]						
Other companies						
BIL Leasing GmbH & Co Hotel Rostock KG	Rostock	20.6	20.6	EUR	146	730
BIL Leasing GmbH & Co Hotel Ulm KG i.L.	Munich	29.0	29.0	EUR	74	10,596
BioM Venture Capital GmbH & Co. Fonds KG						
(share of voting rights: 20.4%)	Planegg/Martinsried	23.5		EUR	2,160	(8)
CMP Fonds I GmbH (share of voting rights: 25.0%)	Berlin	32.7		EUR	6,303	772
DFA Deggendorfer Freihafen Ansiedlungs-GmbH	Deggendorf	50.0	50.0			

NAME	REGISTERED OFFICE	SHARE OF CAPITAL IN % TOTAL	OF WHICH HELD INDIRECTLY	CURRENCY	EQUITY CAPITAL in thousands of currency units	NET PROFIT in thousands of currency units
DFA Deggendorfer Freihafen Ansiedlungs-GmbH & Co.						
Grundstücks-KG	Deggendorf	50.0	50.0			
InfrAm One Corporation	City of Lewes	37.5	37.5	USD	(754)	(3,350)
MOC Verwaltungs GmbH	Munich	23.0	23.0			
MOC Verwaltungs GmbH & Co. Immobilien KG[7]	Munich	23.0	23.0			
SK BV Grundstücksentwicklung GmbH & Co. KG	Cologne	25.0	25.0			
SK BV Grundstücksentwicklung Verwaltung GmbH i.L.	Cologne	50.0	50.0			
US Retail Income Fund VII L.P.	Wilmington	26.3	26.3	USD	13,993	257
4 Holdings in excess of 20%						
without significant influence						
Other companies						
BayBG Bayerische Beteiligungsgesellschaft mbH	Munich	22.5		EUR	175,511	14,416
Bayerischer BankenFonds GbR[6]	Munich	25.6				
BC European Capital VII-12 L.P. (share of voting rights: 0%)	St. Peter Port	34.1		EUR	9,098	(9,649)
B.I.I. Creditanstalt International Ltd. (share of voting rights: 0%)[6]	George Town	40.2				
Deutsche Structured Finance & Leasing GmbH & Co.						
Mira KG i.L. (share of voting rights: 39.8% total,						
of which 4.0% held indirectly)	Frankfurt am Main	39.9	4.0	EUR	2,251	8,080
Engelbert Rütten Verwaltungsgesellschaft						
Kommanditgesellschaft[6]	Düsseldorf	30.2				
EQT III ISS Co-Investment L.P. (share of voting rights: 0%)[8]	St. Peter Port	35.6	35.6			
Felicitas GmbH i.L.	Munich	20.8		EUR	1,048	(277)
GermanIncubator Erste Beteiligungs GmbH						
(share of voting rights: 9.9%)	Munich	39.6		EUR	1,482	(522)
HVB Trust Pensionsfonds AG (share of voting rights: 0%)[9]	Munich	100.0	100.0	EUR	3,696	108
IPE Euro Wagon L.P. (share of voting rights: 0%)[8]	St. Helier	37.5	37.5			
Lauro Ventidue S.p.A. (share of voting rights: 0%)	Milan	24.2	24.2	EUR	172,354	(78)
Mozfund (Proprietary) Limited (share of voting rights: 12.5%)[6]	Sandton	40.0				
Mühoga Münchner Hochgaragen Gesellschaft						
mit beschränkter Haftung	Munich	25.0	25.0	EUR	3,934	2,411
REF IV Associates (Caymans) L.P. Acqua CIV S.C.S.						
(share of voting rights: 0%)	Luxembourg	38.3	38.3	EUR	20,012	(4)

List of Holdings (Continued)

NAME	REGISTERED OFFICE	SHARE OF CAPITAL OF HVB in %	SUBSCRIBED CAPITAL € MILLIONS
5 Other selected holdings below 20%			
5.1 Banks and financial institutions			
AKA Ausfuhrkredit-Gesellschaft mbH	Frankfurt am Main	15.4	20.5
BBB Bürgschaftsbank zu Berlin-Brandenburg GmbH	Berlin	4.3	3.2
BGG Bayerische Garantiegesellschaft mit beschränkter Haftung für mittelständische Beteiligungen	Munich	10.5	0.4
Bürgschaftsbank Brandenburg GmbH	Potsdam	7.8	7.4
Bürgschaftsbank Mecklenburg-Vorpommern GmbH	Schwerin	9.1	8.1
Bürgschaftsbank Sachsen GmbH	Dresden	4.7	27.6
Bürgschaftsbank Sachsen-Anhalt GmbH	Magdeburg	8.9	8.4
Bürgschaftsbank Schleswig-Holstein GmbH	Kiel	5.4	4.0
Bürgschaftsbank Thüringen GmbH	Erfurt	8.7	12.9
Bürgschaftsgemeinschaft Hamburg GmbH	Hamburg	10.5	10.9
Liquiditäts-Konsortialbank GmbH	Frankfurt am Main	5.7	200.0
Saarländische Investitionskreditbank AG	Saarbrücken	3.3	5.2
5.2 Other companies			
BioM Aktiengesellschaft Munich Bio Tech Development	Planegg	8.5	2.9
Börse Düsseldorf AG	Düsseldorf	3.0	5.0
BTG Beteiligungsgesellschaft Hamburg mbH	Hamburg	13.6	4.1
GEMMA Verwaltungsgesellschaft mbH & Co. Vermietungs KG (held indirectly)[7]	Pullach	6.1	68.5
H.F.S. Leasingfonds Deutschland 1 GmbH & Co. KG (Immobilienleasing) (held indirectly)[7]	Munich	<0.1	61.2
H.F.S. Leasingfonds Deutschland 7 GmbH & Co. KG (held indirectly)[7]	Munich	<0.1	56.6
MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH	Stuttgart	5.0	3.6
MBG Mittelständische Beteiligungsgesellschaft Rheinland-Pfalz mbH	Mainz	8.7	2.9
Mittelständische Beteiligungsgesellschaft Berlin-Brandenburg mbH	Potsdam	11.6	5.7
Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern GmbH	Schwerin	15.4	5.1
Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mbH	Hanover	8.2	0.9
Mittelständische Beteiligungsgesellschaft Sachsen mbH	Dresden	11.8	29.0
Mittelständische Beteiligungsgesellschaft Sachsen-Anhalt mit beschränkter Haftung	Magdeburg	12.7	6.5
Mittelständische Beteiligungsgesellschaft Thüringen mbH	Erfurt	13.4	10.0
Saarländische Kapitalbeteiligungsgesellschaft mbH	Saarbrücken	8.7	0.8
Wüstenrot & Württembergische AG	Stuttgart	7.5	481.1

NAME	REGISTERED OFFICE	SHARE OF CAPITAL in %	CURRENCY	SUBSCRIBED CAPITAL in thousands of currency units
6 Fully consolidated special purpose entities pursuant to IAS 27/SIC 12 without shareholding				
Altus Alpha Plc	Dublin	0	EUR	40
Arabella Finance Ltd.	Dublin	0	EUR	<1
Bandon Leasing Ltd.	Dublin	0	USD	<1
Black Forest Funding LLC	Delaware	0	USD	10
Chiyoda Fudosan GK	Tokyo	0	JPY	<1
Elektra Purchase No. 17 S.A. – Compartment 2	Luxembourg	0	EUR	0
Elektra Purchase No. 23 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 24 Ltd.	Dublin	0	EUR	<1
Elektra Purchase No. 28 Ltd.	Dublin	0	EUR	<1
European-Office-Fonds	Munich	0	EUR	0
GELDILUX-TS-2007 S.A.	Luxembourg	0	EUR	31
GELDILUX-TS-2010 S.A.	Luxembourg	0	EUR	31
GELDILUX-TS-2011 S.A.	Luxembourg	0	EUR	31
GELDILUX-PP-2011 S.A.	Luxembourg	0	EUR	31
Grand Central Funding Corporation	New York	0	USD	1
HVB Funding Trust	Wilmington	0	USD	0
HVB Funding Trust III	Wilmington	0	USD	0
Ocean Breeze Finance S.A. – Compartment 1	Luxembourg	0	EUR	0
Rosenkavalier 2008 GmbH	Frankfurt am Main	0	EUR	25
Royston Leasing Ltd.	Grand Cayman	0	USD	1
Salome Funding Plc	Dublin	0	EUR	38

List of Holdings (Continued)

Exchanges rates for 1 euro at 31 December 2012
Currency abbreviation according to the International Organisation for Standardisation (ISO) code.

China	1 euro =	8.2207	CNY
Japan	1 euro =	113.61	JPY
Turkey	1 euro =	2.3551	TRY
UK	1 euro =	0.8161	GBP
USA	1 euro =	1.3194	USD

Notes and comments to the list of holdings

Percentages marked < or > are rounded up or down to one decimal place, e. g. < 100.0% = 99.99% or > 0.0% = 0.01%.

1 HVB has concluded profit-and-loss transfer agreements with the following companies:

	COMPANY	PROFIT/(LOSS) TRANSFERRED €'000
1.1	Bankhaus Neelmeyer AG, Bremen	1,050
1.2	Food & more GmbH, Munich	(834)
1.3	HVB Capital Partners AG, Munich	59,692
1.4	HVB Immobilien AG, Munich	1,109
1.5	HVB Principal Equity GmbH, Munich	1,207
1.6	HVB Profil Gesellschaft für Personalmanagement mbH, Munich	218
1.7	HVB Verwa 1 GmbH, Munich	(1)
1.8	HVB Verwa 4 GmbH, Munich	(2,468)
1.9	MERKURHOF Grundstücksgesellschaft mit beschränkter Haftung, Munich	(1,359)
1.10	Status Vermögensverwaltung GmbH, Schwerin	6
1.11	UniCredit Beteiligungs GmbH, Munich	(1,064)
1.12	UniCredit Direct Services GmbH, Munich	1,555
1.13	UniCredit Leasing GmbH, Hamburg	25,000
1.14	UniCredit Merchant Partners GmbH, Munich	(2)
1.15	Verwaltungsgesellschaft Katharinenhof mbH, Munich	260
1.16	Wealth Management Capital Holding GmbH, Munich	15,288

2 Profit and loss transfer to shareholders and partners

3 Compliant with Sections 264b and 264 (3), German Commercial Code, the company is exempt from the obligation to make annual financial statements public in accordance with the provisions applicable to corporations.

4 Figures of the 2011 annual accounts are indicated for this consolidated company.

5 Subsidiary since HVB exercises a controlling influence through company management.

6 Where equity capital and net profit are not stated, the information is omitted due to minor importance compliant with Section 286 (3) 1 No. 1, German Commercial Code. This information is omitted for companies compliant with Section 285 No. 11a, German Commercial Code, for the same reason.

7 Compliant with SIC 12, the company is fully consolidated by HVB Group.

8 Compliant with Section 286 (3) 2, German Commercial Code, equity capital and net profit are not stated as the company is not subject to public disclosure and the HVB holds less than the half of the shares.

9 The company is held by a trustee for HVB.

Mortgage Banking

63 Coverage

(€ millions)

	2012	2011
A. Mortgage bonds		
Standard coverage		
1. Loans and receivables with banks		
Mortgage loans	—	—
2. Loans and receivables with customers		
Mortgage loans	24,478	26,505
Other eligible cover[1]		
1. Other lending to banks	—	—
2. Bonds and other fixed-income securities	2,016	3,544
3. Equalisation claims on government authorities	—	—
Subtotal	**26,494**	**30,049**
Total mortgage bonds requiring cover	20,494	25,431
Excess coverage	**6,000**	**4,618**
B. Public-sector bonds		
Standard coverage		
1. Loans and receivables with banks	380	553
Mortgage loans	—	—
Municipal loans	380	553
2. Loans and receivables with customers	7,121	7,872
including:		
Mortgage loans	26	42
Municipal loans	7,095	7,830
3. Bonds and other fixed-income securities	1,286	367
Other eligible cover[2]		
Other lending to banks	—	—
Subtotal	**8,787**	**8,792**
Total public-sector bonds requiring cover	6,894	7,375
Excess coverage	**1,893**	**1,417**

1 compliant with Section 19 (1) of the German Pfandbrief Act
2 compliant with Section 20 (2) of the German Pfandbrief Act

64 Mortgage bonds outstanding and covering assets used

(€ millions)

	NOMINAL 2012	NOMINAL 2011	PRESENT VALUE 2012	PRESENT VALUE 2011	RISK PRESENT VALUE 2012	RISK PRESENT VALUE 2011
1. Mortgage bonds						
Covering assets[1]	26,494	30,049	29,164	32,503	29,838	33,567
thereof: derivatives	—	—	—	—	—	—
Mortgage bonds	20,494	25,431	22,785	27,545	23,539	28,741
Excess coverage	**6,000**	**4,618**	**6,379**	**4,958**	**6,299**	**4,826**
2. Public-sector bonds						
Covering assets[2]	8,787	8,792	9,769	9,632	9,404	9,202
thereof: derivatives	—	—	—	—	—	—
Mortgage bonds	6,894	7,375	7,805	8,129	7,508	7,747
Excess coverage	**1,893**	**1,417**	**1,964**	**1,503**	**1,896**	**1,455**

1 including further covering assets compliant with Section 19 (1) of the German Pfandbrief Act
2 including further covering assets compliant with Section 20 (2) of the German Pfandbrief Act

65 Maturity structure of mortgage bonds outstanding and fixed-interest periods of respective covering assets

(€ millions)

	COVERING ASSETS 2012	COVERING ASSETS 2011	MORTGAGE BONDS 2012	MORTGAGE BONDS 2011
1. Mortgage bonds[1]				
less than 1 year	5,465	5,466	3,297	5,678
at least 1 year but less than 5 years	13,689	15,924	11,791	13,193
thereof: at least 1 year but less than 2 years[3]	3,940	4,849	2,977	4,039
at least 2 years but less than 3 years[3]	3,916	3,766	4,436	2,607
at least 3 years but less than 4 years[3]	3,177	4,265	2,181	3,888
at least 4 years but less than 5 years[3]	2,656	3,044	2,197	2,659
at least 5 years but less than 10 years	6,560	7,547	3,051	4,075
10 years or more	780	1,112	2,355	2,485
	26,494	**30,049**	**20,494**	**25,431**
2. Public-sector bonds[2]				
less than 1 year	1,432	1,365	1,564	699
at least 1 year but less than 5 years	4,390	4,019	2,998	4,062
thereof: at least 1 year but less than 2 years[3]	1,438	1,200	542	1,535
at least 2 years but less than 3 years[3]	971	1,177	609	527
at least 3 years but less than 4 years[3]	1,239	811	1,450	550
at least 4 years but less than 5 years[3]	742	831	397	1,450
at least 5 years but less than 10 years	1,845	2,387	1,179	1,316
10 years or more	1,120	1,021	1,154	1,298
	8,787	**8,792**	**6,895**	**7,375**

1 including further covering assets compliant with Section 19 (1) of the German Pfandbrief Act; broken down by fixed-rate period or residual term for mortgage bonds
2 including further covering assets compliant with Section 20 (2) of the German Pfandbrief Act; broken down by fixed-rate period or residual term for mortgage bonds
3 breakdown as per amended German Pfandbrief Act 2009

66 Loans and receivables used to cover mortgage bonds, broken down by size

(€ millions)

	2012	2011
Mortgage covering assets		
up to and including €300,000	11,939	14,088
over €300,000 up to and including €5,000,000	6,367	7,315
more than €5,000,000	6,172	5,102
	24,478	**26,505**

Mortgage Banking (Continued)

**67 Loans and receivables used to cover mortgage bonds,
broken down by region in which the mortgaged properties are located and by type of occupancy**

(€ millions)

	MORTGAGE COVERING ASSETS			
	RESIDENTIAL PROPERTY		COMMERCIAL PROPERTY	
	2012	2011	2012	2011
1. Germany				
Apartments	4,564	5,249	—	—
Single-family houses	5,373	6,122	—	—
Multi-family houses	6,369	6,768	—	—
Office buildings	—	—	3,317	3,457
Commercial buildings	—	—	2,370	2,590
Industrial buildings	—	—	586	502
Other commercially used buildings	—	—	706	644
Buildings under construction	486	553	597	500
Building sites	16	19	86	90
	16,808	**18,711**	**7,662**	**7,783**
2. France/Monaco				
Single-family houses	2	2	—	—
Multi-family houses	—	—	—	—
	2	**2**	**—**	**—**
3. Italy/San Marino				
Single-family houses	1	1	—	—
	1	**1**	**—**	**—**
4. Luxembourg				
Office buildings	—	—	—	3
	—	**—**	**—**	**3**
5. Austria				
Office buildings	—	—	5	5
	—	**—**	**5**	**5**
6. Spain				
Single-family houses	—	—	—	—
	—	**—**	**—**	**—**
	16,811	**18,714**	**7,667**	**7,791**

68 Loans and receivables used to cover public-sector bonds, broken down by type of debtor or guarantor and its home country

(€ millions)

	COVERING ASSETS	
	2012	2011
1. Germany		
Central government	2	17
Regional authorities	3,578	2,894
Public-sector authorities	3,827	4,292
Other	1,105	1,356
	8,512	**8,559**
2. Greece		
Central government	—	—
Other	—	—
	—	**—**
3. Austria		
Central government	250	200
	250	**200**
4. Spain		
Public-sector authorities	25	33
	25	**33**
	8,787	**8,792**

Mortgage Banking (Continued)

69 Payments in arrears

Payments in arrears on mortgages and public-sector loans and receivables due between 1 October 2011 and 30 September 2012 break down as follows:

(€ millions)

	COVERING ASSETS	
	2012	2011
1. Payments in arrears on mortgages		
Germany	1	1
	1	**1**
2. Payments in arrears on public-sector loans and receivables		
Germany		
Regional authorities[1]	—	—
Other[1]	—	—
	—	**—**

1 officially guaranteed loans and receivables

70 Foreclosures and sequestrations

		OF WHICH:	
		COMMERCIAL PROPERTY 2012	RESIDENTIAL PROPERTY 2012
1. Foreclosures and sequestrations			
	NUMBER OF PROCEEDINGS		
a) Pending at 31 December 2012			
Foreclosure proceedings	425	76	349
Sequestration proceedings	19	5	14
Foreclosure and sequestration proceedings	318	61	257
	762	**142**	**620**
(comparative figures from 2011	820	169	651)
b) Foreclosures finalised in 2012	**132**	**22**	**110**
(comparative figures from 2011	207	79	128)
2. Properties auctioned or repossessed			
The Pfandbrief bank did not have to repossess any properties during the year			
under review to prevent losses on mortgage loans.			

71 Interest in arrears

Interest in arrears on mortgage-covering assets due between 1 October 2011 and 30 September 2012 break down as follows:

(€ millions)

	2012	2011
Commercial property	—	—
Residential property	—	—

The present annual financial statements were prepared on 12 March 2013

UniCredit Bank AG
The Management Board

Dr Bohn	Buschbeck	Danzmayr	Diederichs
Hofbauer	Laber	Varese	Dr Weimer

Declaration by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of HVB, and the Management Report includes a fair review of the development and performance of the business and the position of HVB, together with a description of the principal opportunities and risks associated with the expected development of HVB.

Munich, 12 March 2013

UniCredit Bank AG
The Management Board

Dr Bohn	Buschbeck	Danzmayr	Diederichs
Hofbauer	Laber	Varese	Dr Weimer

Auditor’s Report

We have issued the following unqualified auditor’s report:

“Auditor’s Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of UniCredit Bank AG, Munich, for the business year from 1 January to 31 December 2012. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company’s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB [Handelsgesetzbuch: German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company’s position and suitably presents the opportunities and risks of future development.”

Munich, 12 March 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pukropski
Wirtschaftsprüfer

Pfeiffer
Wirtschaftsprüfer

Financial Calendar

Important Dates 2013[1]

Annual Press Conference	18 March 2013
Interim Report at 31 March 2013	10 May 2013
Half-yearly Financial Report at 30 June 2013	6 August 2013
Interim Report at 30 September 2013	11 November 2013

1 dates planned

Contacts
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